SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1933

No. 608

THE COLUMBUS GAS AND FUEL COMPANY,
APPELLANT,

vs.

THE PUBLIC UTILITIES COMMISSION OF OHIO
AND THE CITY OF COLUMBUS, OHIO

APPEAL FROM THE SUPREME COURT OF THE STATE OF OHIO

VOL. II

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There appears a charge of $53.80 traveling expenses, a bill submitted by the Columbia Engineering & Management Corporation which is the traveling expenses of representatives of the company appearing before the Federal District Court of Appeals in Cincinnati. In my opinion that should have been charged to rate case expense.

Yesterday afternoon in discussing some of these accounts I explained that there was an item charged in error to the operation of distribution plant; that is the charge was for the appraisal of furniture and fixtures for insurance purposes. I excluded that amount from the operation of

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[fol. 1089] the distribution plant and have charged it, or added it to general expense—a very nominal amount, $18.11.

There appears a charge for a refund on two script stock certificates of 1906, the amount being $75.00. That is properly a charge against surplus.

There appears an item "Refund received of deposits on plans and specifications of the City Prison". This is properly a credit to the surplus account.

There is a bill, James A. Counsellor & Company for services on tax matters of 1928. It has no place in the expenses for the year 1929 and should have been charged to surplus.

The amount of that bill is $765.93.

The bill of Richter & Company for services on Federal Capital Stock Tax matters, 1925 and 1926, has no proper place in the statement of expenses for the year 1929. This expenditure should have been charged to surplus. The amount is $171.50.

There is another bill from James A. Counsellor for services on tax matters of 1929. This should have been charged to the reserve created by the Company for such charges from Counsellor and Ernst & Ernst. The amount of that bill was $53.45.

The total company-wide amount of these miscellaneous adjustments is $7,306.04 and the total company-wide adjustment that I make, including the one immediately preceding explained, is $73,225.48.

General expense, as here defined, appears on the Company's books for the company-wide operations in the amount $188,736.17. The total reduction I make of that

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[fol. 1090] amount as hereinbefore stated is $73,225.48, the remaining amount for the company-wide operations being $115,510.69. This amount allocated to the City of Columbus becomes the amount shown opposite the title "Genereal Expense" on this page and is the amount there revealed $101,042.28.

Commissioner Geiger: Now have you an exhibit anywhere which you intend to submit that shows those separate items that total that amount, or must we take it simply from what you have read?

The Witness: Well, if Your Honor please, I have no exhibit. That is an audit that I made of the Company's books.

By Mr. Huffman:

Q. You will prepare such an exhibit however if the Commission desires it?

A. I can, yes, sir.

Commissioner Geiger: Where you have such large sums made up of such numerous items it would be a great convenience to us if you would separate them and put them into the same exhibit that contains that large item so we may examine in detail each one of your smaller items that go to make up the whole item.

The Witness: Would it suffice—and this is partly your suggestion—that I submit a memoranda?

Commissioner Geiger: Yes; you have read from something; give us a copy from what you have read.

The Witness: I cannot very well do that; I have been reading from my work papers.

Commissioner Geiger: Well, all right; submit the details in a separate memoranda of what goes to make up those general expenses.

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[fol. 1091] Mr. Turner: Whose work papers were you reading from?

The Witness: Mine.

Mr. Turner: Whose made by you?

The Witness: They were made by me or immediately under my direction.

Mr. Turner: They were not made by you, were they?

The Witness: They were made under my direction.

Mr. Turner: We cannot get an answer to the question.

Mr. Butler: Maybe you can when you cross examine him.

Mr. Turner: Well, we might right now because he is referring to data that was not made by him and audit that was not made by him.

Commissioner Geiger: There has to be a rule; it does not adhere strictly to the testimony—securing the testimony of a witness who actually did it; otherwise we never would get through any of these cases, you did the same thing.

Mr. Turner: Oh, no. Read back there and find the objections and you will find we did not do the same thing. They demanded that every man be brought in here. Why, I can hear those words ringing yet, and they were brought in.

Commissioner Geiger: We can't waste time in conversation. Make your objection in the usual way.

Mr. Turner: Well, there is an objection to the witness using data not made by him.

Commissioner Geiger: Objection overruled.

Mr. Turner: Note an exception. There is an objection to the witness testifying to an audit that he didn't make.

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[fol. 1092] Commissioner Geiger: Objection overruled and exception noted.

Mr. Turner: Note an exception.

Commissioner Geiger: With this reservation, that if the Company desires to have the presence of the witness who actually made it, they may secure the presence of such witness.

Mr. Turner: Well, we want him.

Mr. Huffman: We will gladly offer him.

By Mr. Huffman:

Q. In arriving at your figure here for general expense you said that you have not included what is known as the Columbia Engineering & Management Corporation's fee in the amount of $82,496.11. Now what, from your observation, has been the effect of the Columbia Engineering &

Managament Corporation's activities, if any, on the operating expense of this company?

Mr. Turner: Objection; the witness is not qualified.

By Mr. Huffman:

Q. Mr. Allensworth, you are familiar with the operating expenses of this company prior to the year 1927, are you not?

A. Yes, sir.

Q. Are you familiar with the operating expense of the Company succeeding that period from 1927 down to the present time?

A. Yes, sir.

Q. You know that the Columbia Engineering & Management Corporation is purported to have come into the picture in that year?

A. Yes, sir.

Q. What has been the effect to your knowledge of the Engineering & Management Corporation's activities relative to the operating expenses of the Columbia Gas & Fuel Company?

Mr. Turner: Objection. I want to ask two questions as to his qualifications.

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[fol. 1093] By Mr. Huffman:

Q. Going back to the original question, Mr. Allensworth, what, to your knowledge, has been the effect of the Columbia Engineering and Management Corporation's activities on the operating expenses of this Company?

Mr. Turner: Let anyone of these questions show our objection and the exception.

Commissioner Geiger: Couldn't you make your question much shorter than that—that is to require a much shorter answer? Could you say from your examination whether or not there was any value received by the Company?

Mr. Turner: Now may we have the objection?

Commissioner Geiger: Yes.

Mr. Turner: And the exception?

Commissioner Geiger: Yes.

Mr. Turner: All right.

The Witness: May I answer your question this way——

Commissioner Geiger: Just answer yes or no and then explain it.

The Witness: Will you read the question, please?

(And thereupon Commissioner Geiger's question was 3655 [fol. 1094] read to the witness.)

The Witness: I could not answer that question yes or no.

Commissioner Geiger: All right, I will retire.

By Mr. Huffman:

Answer my question then as to the effect——

Mr. Turner: May the record show our objection?

Commissioner Geiger: Yes, and your exception.

By Mr. Huffman:

Q. As to the effect of the Engineering & Management Corporation?

Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.

The Witness: The operating expenses of this company have increased appreciably since the advent of the Engineering & Management Corporation.

By Mr. Huffman:

Q. Has the rate structure of this company changed to your knowledge since the advent of the Engineering & Management Corporation?

A. It has not.

Q. Mr. Allensworth, is this corporation not strictly speaking a service corporation within an intercorporate family?

Mr. Turner: Objection; what kind of an expert is he now?

Commissioner Geiger: Haven't we had quite a detailed account of the service rendered by this company known as The Columbia Engineering & Management Corporation in our former hearings, and is there any question about what it is?

Mr. Huffman: Well, I want to bring out the nature of the corporation as he sees it.

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[fol. 1095] Commissioner Geiger: Well, hasn't it all been gone into before without any question as to what the service is?

Mr. Huffman: Not in the way I would like to set it forth here.

Commissioner Geiger: All right.

By Mr. Huffman:

Q. You are familiar with the corporate set-up of the Columbia Gas & Electric Corporation, are you not, to some extent?

A. To some extent, yes.

Q. Do you know whether or not the Ohio Fuel Gas Company and the Columbus Gas & Fuel Company are a part of that corporate system?

Mr. Turner: Objection.

Commissioner Geiger: Objection overruled.

Mr. Turner: Note an exception.

The Witness: Yes, sir.

Mr. Turner: We are simply helpless.

Q. Is not the Columbia Engineering & Management Corporation also a subsidiary of the Columbia Gas & Electric Corporation?

A. It is.

Chairman Hopple: Isn't that all in the record, Mr. Huffman?

Mr. Huffman: I think it is but I am trying to get the knowledge of this witness relative to the set-up here so that he may testify about the service of this kind of a corporation and the way it is rendered to the various corporations.

Chairman Hopple: If I were to be asked the question to give an answer to the question you put I could answer it and my grade would be 100 per cent. Now why take the

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[fol. 1096] time to go into it again?

Mr. Huffman: Well——

Chairman Hopple: And I am sure my colleagues can do the same.

Mr. Huffman: Well, that may be true but of course we are making up a record here as we go along, if the Commission please.

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[fol. 1097] By Mr. Huffman:

Q. Mr. Allensworth, at any rate, this is a service corporation, is it not?

A. Yes, sir.

Q. And in your opinion should a service of this nature ever be furnished in this way except at cost.

A. It should not, in my opinion.

Q. Well, isn't it a fact that the Columbia Engineering & Management Corporation acquired its alleged unusually efficient personnel from such companies as The Columbus Gas & Fuel Company and The Ohio Fuel Gas Company and other associated companies of The Columbia Gas & Electric Corporation?

A. With very few exceptions, yes, sir.

Q. These men were all there and somehow connected before the organization of this corporation, isn't that a fact?

A. Yes, sir.

Q. Well, one of the witnesses for the Company testified and stated that a contribution of the Engineering & Management Corporation to the local company was the introduction of welded pipe; is there any welded pipe, to speak of, in the mains of this system.

Mr. Turner: Objection. I am not objecting to leading questions, but this "to speak of" opens a wide door.

Mr. Huffman: Well, I will qualify my question; I will change my question.

Q. Is there any welded pipe in the mains of the Company?

A. In the mains of The Columbus Gas & Fuel Company?

Q. Yes.

A. Not that I know of.

Q. Do you know where any welding has been used by this Company?

A. Yes, sir.

Q. Where is that?

A. The Company is welding pipe in connection with dis-

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[fol. 1098] trict regulator stations in lieu of using fittings on the pipe.

Q. Then some little welding has been used above the ground?

A. Yes.

Q. In such instances as that?

A. Yes, sir.

Q. Well, it has been stated by certain witnesses for the Company that the advent of this corporation contributed much to the efficiency of the local company; were you acquainted with the management of the company prior to 1927?

A. Yes, sir.

Q. And have you been acquainted with it somewhat since that time?

A. Yes, sir.

Q. Well, what have you to say relative to the management prior to 1927?

Mr. Turner: Objection again on the basis of qualification.

Commissioner Geiger: I think he has already stated it; objection sustained.

Mr. Huffman: Note an exception, and if the witness were permitted to answer I would like to dictate for the record that he would state that there was fair management before that time and that the management was good.

Commissioner Geiger: Mr. Allensworth, I understand from your former testimony that the services that were secured by the Company and paid for prior to the advent of the Management Company, were about $18,000.00?

The Witness: Yes, sir.

Commissioner Geiger: And that you increased it in your estimate to about $20,000.00?

The Witness: To exactly $20,000, yes, sir.

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[fol. 1099] Commissioner Geiger: That is, you estimated that the additional services rendered by the Columbia Engineering & Management Corporation were worth about $2,000.00 more than the services that were rendered by the officers of the company prior to the advent of the Management Company; is that right?

The Witness: Not quite that, Your Honor. I believe that by comparison with the amounts paid executive officers in

1925, I believe that the company could be well officered for $20,000.00 and were in 1929.

Mr. Turner: Mr. Seyffert is not here today and we may have some evidence on the cost of officers back in that time; that is whether or not there was additional service furnished by The Pure Oil Company, which was the owner of the stock.

By Mr. Huffman:

Q. Well, you have taken your figures here and facts from the figures and facts already in this record, have you not, in arriving at your answer as far as this $18,000.00 and some odd dollars is concerned?

The Witness: I don't remember specifically whether that detail is in the record or not but I made an audit and an investigation first from the sworn statements of this company, filed with this Public Utilities Commission, for a good many years. I think I have studied, or I have in my office, copies of those reports going back to—I think to the first one filed, as a matter of fact, and whether or not that particular item in detail has been submitted in this record I do not remember. It may have been.

Q. This figure, however, is a figure from the books of the Company, according to your recollection, Mr. Allensworth?

A. Originally that figure is taken from the annual reports

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[fol. 1100] of the Company and then the books of the Company were audited for verification and the audit was made under my direction.

Q. Well, now, isn't it a fact, Mr. Allensworth, that there is only one stockholder of The Columbus Gas & Fuel Company and that is The Columbia Gas & Electric Corporation?

A. Neglecting Directors' qualifying share, yes.

Q. That is the fact?

A. Yes.

Q. And isn't it true that there is a single stockholder of The Columbia Engineering & Management Corporation and that is The Columbus Gas & Electric Corporation?

Mr. Turner: Objection; let us find out how he knows.

Commissioner Geiger: That would be the best evidence, objection sustained on the ground, that this is not the best

evidence. Is it any different from the evidence already in? Objection sustained.

Mr. Huffman: Note an exception, and if the witness were permitted to answer, his answer would be, "That is true, except for qualifying shares."

By Mr. Huffman:

Q. Then, Mr. Allensworth, any profit taken from The Columbus Gas & Fuel Company through the levy of 2½ per cent of the gross receipts of the local company goes to the owner of The Columbus Gas & Fuel Company, the same as if it were paid from the Columbus Company to The Columbia Gas & Electric Corporation; isn't that a fact?

Mr. Turner: Objection. That is a matter for the Commission. You don't need an expert on that.

Mr. Huffman: We are just trying to trace it and give this expert's reason for dropping out the $82,496.00 from the general expense of the corporation.

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[fol. 1101] Mr. Turner: I could go ahead and cross examine this witness for his knowledge and show that he has none at all.

Commissioner Geiger: The Commission is of the opinion that the answer to the question would not be enlightening or any assistance to the Commission in determining this question. The main matter is already in the record and probably in much better than could be produced by this witness who is not an expert on that matter, objection sustained and exception noted.

Mr. Huffman: We are not offering it for that purpose; we are offering it to show the reason of this witness for rejection the fee as such. I will admit that it is leading and slightly argumentative.

Mr. Turner: We do not object to the leading question.

By Mr. Huffman:

Q. Then you may state generally any other reasons you may have had for rejecting this fee in arriving at the proper general expense of the Company.

A. Pardon me; any reasons that I have beyond the question you have just asked?

Q. Yes.
A. That is all.

Commissioner Bricker: Just one question, Mr. Allensworth, you have allowed as a matter of expense the salaries of the general officers as a portion of the 2½ per cent of the gross revenue; in your judgment what other service was rendered by the Management Company that should be allowed as an expense of the local company?

The Witness: I don't think that any service of value has been rendered.

Mr. Turner: I move to strike out the answer; it is not responsive.

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[fol. 1102] Commissioner Bricker: I think it was responsive. Was there any other service rendered by the Management Company to the local company regardless of its value?

The Witness: Yes, sir.

Commissioner Bricker: What was that service?

The Witness: There has been engineering service rendered for which a bill in addition to the 2½ per cent was rendered.

Commissioner Bricker: And that was paid by the local company?

The Witness: Yes.

Commissioner Bricker: And they are in your set-up here?

The Witness: Yes.

Commissioner Bricker: That is all.

By Mr. Huffman:

Q. Mr. Allensworth, the next item here is "Gas used in operation", you may tell us how you have treated it.

A. The amount appearing opposite the title "Gas used in operation" in parenthesis $1,801.44, is a credit or a deduction from the operating expenses for the reason—pardon me—that is the Company's accounting for this item; it appears here as a credit for the reason that the cost of gas used in operation is included in the total cost of gas purchased. The gas used is billed to the various departments and appears and is accounted for as departmental expense. Then credit for the amount billed is taken in other general expense.

Q. You have treated this as a credit to expense?

A. Yes, sir.

Q. Under "Miscellaneous Shop and Other Expenses" you have set forth an amount which you may discuss.

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[fol. 1103] A. Opposite the title "Miscellaneous Shop and Other Expenses" there appears a credit in the amount of $6,344.27. The Company's ledger revealed, as to the Company-wide business, a credit in this account for the year 1929, amounting to $7,313.65. Included in the items that make up this credit is a fee paid to the Columbia Engineering & Management Corporation in the amount of $146.14, which fee is based on miscellaneous shop and other revenue. Deducting this amount from the total to allocate the fee paid to the Columbia Engineering & Management Corporation produces a credit balance for the Company-wide operations in the amount of $7,459.79. This amount, allocated to the City of Columbus, produces the amount shown opposite the title "Miscellaneous Shop and Other Expenses" and appears, as here revealed, in the amount of $6,344.27.

Q. Is this also a credit to expense?

A. Yes, it is a credit to expense.

Q. What is the total, exclusive of gas purchased, then, Mr. Allensworth, according to your set-up?

A. The total operating expenses as here interpreted, exclusive of the price paid for purchased gas, is $366,621.71. The total operating expense including the cost of gas purchased amounts to——

Mr. Turner: Objection because he has stated specifically that it was not the cost of gas only up until the first of July, 1929; now he states down here "Including the cost of gas purchased". That is not true and we object to it.

Commissioner Bricker: That is on the basis of 31.2 cents per cubic foot which was not charged the last six months of the year?

The Witness: That is on the basis of a charge of 31.2

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[fol. 1104] cents for the entire amount of gas purchased during the year 1929.

Commissioner Bricker: But that was not the actual charge except for the first six months of 1929.

The Witness: That is true.

By Mr. Huffman:

Q. That is, you have extended it through the year, Mr. Allensworth; you have extended that amount through the year?

A. Yes, sir.

Q. Had you completed your answer?

A. No, sir; as I understand it, there is an objection.

Commissioner Bricker: The objection will be overruled.

Mr. Turner: Note an exception. I take it with Your Honor's explanation——

Commissioner Bricker: With my explanation there should be no objection.

Mr. Turner: That is true, and no exception taken.

The Witness: The total operating expenses including the cost of gas purchased, as here revealed, amounts to $2,265,034.38.

By Mr. Huffman:

Q. That is the gross amount, your figure?

A. That is the gross amount of operating expenses including the cost of gas purchased before depreciation and taxes.

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[fol. 1105] Q. Under "Taxes" what have you included for real and personal property?

A. The amount appearing opposite the title "Real and Personal Taxes" is $87,691.95.

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[fol. 1106] The Company's ledgers reveal $110,259.50 for the Company-wide accrual of real and personal property tax for the year 1929. The tax bills for the period amount to $104,643.46 for taxes and $150.98 for special assessments, that is for improvements and betterments to the property. In other words, the company's ledgers reveal an excessive accrual for real and personal property taxes. The accrual set-up on the books, as before stated, was actually $110,259.50 and the actual amount of taxes paid was $104,643.46, and in addition thereto there was paid $150.98 for special assessments for improvements to the property.

In my interpretation of real and personal property tax as an expense, the excessive accrual has been reversed, or in other words, it has been deducted and special assessments

allocated. Those special assessments are really a charge to capital account.

The amount of the tax bills, $104,643.46 has been allocated to service within the City of Columbus and the amount resulting from that allocation is the amount appearing on this page, namely, $87,691.95.

Q. You figure that would be the actual amount to be paid?

A. That is the actual amount of taxes paid by the Company allocated to the City of Columbus for the year 1929.

Q. What assessments did you mention as being those which you would charge to capital account?

A. I beg pardon?

Q. You mentioned the exclusion there of an assessment which you stated was a proper charge to capital account; will you explain that a little more fully?

A. The amount is small, $150.98. Those are special as- 3671

[fol. 1107] sessments against the property for street and perhaps other improvements—sewers or whatever the betterment may have been, but it is an improvement to the property.

Mr. Turner: Just a minute; we want the specification just like you do; we want the detail; we think it is street cleaning and sweeping.

By Mr. Huffman:

Q. Do you know the nature of that assessment for sure—that is the specific nature of it?

A. I haven't it before me, no. I went into it at the time.

Commissioner Bricker: It is not enough to quibble over. I doubt if it is capitable, however. I have just one question; I may have missed your answer on the real and personal property tax. Did you allocate that upon the basis of the dollar value of the property within or without the city or did you take the actual taxes in the different political subdivisions?

The Witness: That has been allocated to service within the city of the same basis as used by the company.

Commissioner Bricker: Taking the gross taxes?

The Witness: No; the ratio of property within and without the city.

Commissioner Bricker: Well, that is what I meant; that ratio aplpied, then, to the gross amount of taxes paid?

The Witness: Yes, sir.

Commissioner Bricker: You did not take into consideration the different rate of taxes in the various subdivisions wherein the property might be located?

The Witness: I did not.

Commissioner Bricker: That is all.

By Mr. Huffman:

Q. What amount have you set up for excise tax?

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[fol. 1108] The Witness: The amount appearing opposite the title "Excise Tax" is $38,697.34. This is 1.35 per cent of the gross revenue received from operating within the city and is the amount shown at the top of this statement opposite that title and amounts to $2,866,469.59. The excise tax is 1.35 per cent of that amount.

Q. And that is the amount allocated to the Company within the City of Columbus?

A. It is not allocated; the tax is taken on the revenue within the City of Columbus.

Q. And that is based originally on that revenue—on the city revenue?

A. Yes, sir, revenue within the City of Columbus. That, in effect, is the allocation of the excise tax.

Q. Well, is this the same amount as shown by the Company's books as actually paid, Mr. Allensworth?

A. No; the Company's books reveal the amount of total excise tax paid for the company-wide operations, is any apportionment—any proper apportionment made of the ledger accounts would produce this amount here shown $38,697.34.

Mr. Turner: Motion to strike out the answer as not responsive to the question.

Commissioner Geiger: As I understand you, Mr. Allensworth, you intend to say that you secured from the books of the company the amount it actually paid and then allocated it to the property within the city?

The Witness: Yes, and I have explained the allocation.

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[fol. 1109] Q. You have set up an amount here for Federal Income Tax, Mr. Allensworth; you may discuss that.

A. The Company, according to its ledger, paid no income tax for the year's operation of 1929. After making the hereinbefore explained adjustments of expenses for the purpose of this Exhibit and allocating expenses on the basis of value of property within and without the City of Columbus, the operations within the City of Columbus show an income of $277,937.10 subject to Federal Income Tax. 12 per cent of that is the amount here shown, namely, $33,352.45.

The amount appearing opposite the title "Total Taxes" is the sum of the preceding tax items and is here revealed in the amount $163,067.80.

The next figure on the page appearing opposite the title "Total Expense" in the amount $2,526,635.68 is the sum

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[fol. 1110] of operating expenses including cost of gas purchased in the amount $2,265,034.38, depreciation expense in the amount of $97,533.50 and taxes in the amount of $163,067.80.

Subtracting the amount shown here as total expense from the total revenues, that is the total revenues appearing in the amount of $2,866,469.59; deducting from that the total expense in the amount of $2,525,638.68, produces a net amount available for return on investment or return on the sound value of the company's property $340,833.91.

Mr. Turner: I move to strike out the $340,833.91 for the reason that his computation does not show any provision for surplus.

By Mr. Huffman:

Q. However you may have arrived at that, Mr. Allensworth, that is your figure for net income according to your set-up here?

Mr. Turner: Well, wait until I get a ruling.

Commissioner Geiger: Objection overruled.

Mr. Turner: Note an exception.

The Witness: The amount here shown as available for return on investment or sound value is, of course, the amount available for dividends and surplus and is equal to

10.157 per cent on the sound value of this property as of December 31, 1929.

Q. That is, this would produce a return of 10.15 per cent?

A. The ratio of percentage is actually 10.157 or practically 10.16 per cent on the sound value of the property as of December 31, 1929.

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[fol. 1111] Commissioner Bricker: Should you then have taken your expense and revenues as of the year previous to the beginning of the construction of the plant?

The Witness: Surely, for this reason; we have before us the definite record of operations for the year 1929. The purpose of valuation, as I understand it, and as I interpret the reproduction theory, is to fix the sound value as of the date certain, namely, in this case December 31, 1929. My interpretation of that theory is that the reproduction theory

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[fol. 1112] —and it is entirely a hypothesis—starts with the date certain of construction. One of the practical considerations is that you could not go back three years and start a construction program. You can start a construction program theoretically as of the date certain of the appraisal.

Mr. Turner: On that answer we move to strike out all he said at Page 1 of Exhibit No. 61 because the figures are here available for 1930 in this case.

Commissioner Geiger: You don't mean, Mr. Allensworth, by that statement, that in estimating the three year period in which the construction would be completed you shall change each year all the figures that go to make up your costs?

The Witness: Oh, my, no. If I had done that——

Commissioner Geiger: What you mean simply is this, that theoretically you start with December 31, 1929 and run for three years and end on December 31, 1929?

The Witness: Theoretically that is correct, yes, sir, with prices for labor and material as of December 31, 1929. Now, had I followed the idea suggested in the first of Your Honor's remark the reproduction cost I would have produced in this record would have been somewhaf less for the

reason that both the price of labor and material has dropped since December 31, 1929.

3681

[fol. 1113] By Mr. Huffman:

Q. Mr. Allensworth, will you turn to page 2 of this exhibit please and——

A. If you will pardon me, Mr. Huffman, I hadn't completed my explanation of page 1.

Q. I beg pardon; you may proceed with that.

A. The amounts revealed on page 1 of what has been marked City's Exhibit No. 61 as gross revenue, directing particular attention to the item opposite "Total" under gross revenue, namely the amount $2,866,469.59 is equivalent to 49.012 cents per thousand of gas distributed within the City of Columbus for the calendar year 1929.

The amount here shown as gas purchased for resale, the total amount being $1,898,412.67 is equivalent to 32.459 cents per M cubic feet of gas distributed.

The amount revealed as total expenses exclusive of gas purchased, namely, the amount $366,621.71 is equivalent to 6.269 cents per M cubic feet.

The amount revealed as operating expense including the cost of gas purchased, namely the amount of $2,265,034.38 is equivalent to 38.728 cents per M cubic feet of gas distributed.

Depreciation expense revealed in the amount of $97,-

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[fol. 1114] 533.50 is equivalent to 1.668 cents per M cubic feet of gas distributed.

The amount revealed as total taxes, namely, the amount $163,067.80 is equivalent to 2.788 cents per M cubic feet.

The amount here revealed as total expense namely the amount $2,525,635.68 is equivalent to 43.184 cents per M cubic feet of gas distributed.

The amount revealed as net income available for return on investment or sound value, or in other words the amount available for dividends and surplus in the amount shown as $340,833.91 is equivalent to 5.828 cents per M cubic feet of gas distributed.

The total distribution expense revealed on this page of this exhibit excepting gas purchased but including annual charge for depreciation and taxes is equivalent to 10.725 cents per M cubic feet of gas distributed.

Before concluding my discussion of this page 1 of what has been marked for purposes of identification City Exhibit No. 61, I wish to direct attention to the amount here revealed as depreciation expense, namely the amount $97,533.50 and explain that that is the amount included as depreciation expense over and above maintenance charges or the cost of repairs included in the various sub-division accounts of operating expenses.

Q. Do you have any further explanation?

A. I believe not at this time.

Q. You may turn to page 2 and tell us what your study and set-up reveals relative to the succeeding pages.

A. I have prepared a study of the effect of the wholesale

3683

[fol. 1115] price of gas upon the net return to the company resulting from natural gas operations within the city of Columbus. This study throughout is based upon the company's operations and expenses for the year 1929. The expense items are the same as revealed in page 2 of this exhibit exception as to the amount payable for purchased gas and the effect of the difference in net revenue on taxes.

On page 2 of this exhibit, there is revealed the effect of a 20 cent wholesale price of gas. If the price payable for gas purchased by the Columbus Gas & Fuel Company was 20 cents——

Mr. Turner: We object to this statement. There is no possibility shown of getting any gas. They are just cluttering up the record making an exhibit that doesn't amount to anything or has no relevancy in this case whatsoever.

Mr. Huffman: Oh, if Your Honor please, there has been much said in this record relative to the possible syphoning of profits and so forth.

Mr. Turner: Yes, sir.

Mr. Huffman: And I think this exhibit might well be called a syphoning exhibit. It shows very conclusively that through the management fee at the rate of 2½ per cent on the gross revenue of the company which is paid to the Columbia Engineering & Management Corporation and the price paid for wholesale gas, that in those two sources we have the principal means by which profits have been syphoned out of the revenues of the Columbus Gas & Fuel Company, and this exhibit reveals the relative effect of the

varying wholesale or gate rate prices of gas, and we pre-
3684
sented to the Commission as a study showing these
[fol. 1116] effects.

Mr. Turner: Where are the gate rates obtainable in the United States at that price?

Mr. Huffman: Very well; the gate rate is yet to be determined here and the evidence will be offered.

Commissioner Geiger: Well, I think we would look at this exhibit with that that you have stated in mind, and it will give us a convenient table by which we may determine their estimate of profits at certain rates per thousand cubic feet. It may be anticipatory to their hope to prove that the gateway rate ought to be 20 cents.

Mr. Turner: They may find some gas for us; I hope they do.

Commissioner Geiger: Well, this may anticipate evidence they may offer.

Mr. Turner: May we reserve the question?

Mr. Huffman: We are just presenting it as a study to show the effect of the various gate rates.

Commissioner Geiger: Objection overruled.

Mr. Turner: Exception.

Q. Proceed Mr. Allensworth.

Commissioner Geiger: Explain generally but not too much in detail.

Q. Yes, explain the succeeding pages in a general way. I believe they speak for themselves, so you do not need to go into detail.

A. Well, as an introduction to just such general explanation, I was explaining that on page 2 of that exhibit there is revealed the effect on the company's return if a wholesale price of gas is 20 cents, and if the wholesale price of gas
3685
[fol. 1117] were 20 cents in accordance with this study which was built upon the experience of the company in 1929 the yield would have been 28 percent on the sound value of the property.

On page 2 there is revealed a like statement of the effect of a 21 cent wholesale price of gas and a 22 cent wholesale price of gas.

On page 3 there is revealed a study——

By Commissioner Geiger:

Q. Can't you say from page 3 to page 8 it reveals the income of gas at the various prices therein noted? That will be enough. You don't have to go through every page. They are all alike, aren't they, Mr. Allensworth, on the same principle?

A. They are all on the same principle.

Commissioner Geiger: Well, we can understand.

By Mr. Huffman:

Q. They are prepared upon the same basis study, subject only to the varying wholesale rate which you have assumed?

A. That is correct.

By Commissioner Geiger:

Q. Then let me ask you just one question. Assuming—assuming only that 45 cents, which is the present gateway rate is a correct gateway rate; then you would come to the conclusion there is no profits at all on page 7?

A. The last column on page 7 shows that there would have been a deficit of $465,496.17.

Q. If they had to pay a 45 cent rate, and if that was the proper rate?

A. Yes, sir.

Q. Where on these pages is shown the amount of income you get from the sale of the gas?

A. It is shown on the top line of each page, gross revenue.

Q. Well, those are gross revenues——

Mr. Turner: Gross revenue is all the same clear across.

3686

[fol. 1118] Q. As I understand these are gross revenues if you paid so much at the gateway for gas, is that right?

A. Oh, I beg your pardon. This is the amount—this study, if Your Honor please, is essentially the same as the one appearing on page 1. The gross revenue derived from the sale of gas within the city of Columbus at the rate of 48 cents with a 75 cent min-mum charge including the gross revenue derived from minimum charge or from penalties, and also the small amount of miscellaneous shop and other revenues, and the amount appearing as gross revenue at the top of pages 2 to 7 inclusive, is carried forward from the

total shown on page 1 opposite the title "Total" under gross revenue, namely, $2,866,496.59.

Q. Wait just a minute. What price produced that?

A. 48 cents per thousand cubic feet.

Q. To the consumer?

A. To the consumer, with a 75 cent minimum charge.

Q. Well, you haven't got that on here at all.

By Mr. Butler:

Q. That is the present ordinance rate?

A. That is the present ordinance rate, and that is the amount revealed by the books of the company as having been actually collected for the sale of gas during the year 1929.

By Commissioner Geiger:

Q. Well, I have got it all right now. In other words that amount you carried through from page 1 to page 7 as the gross revenue is based upon the present ordinance charge.

A. It is the result of the present ordinance charge.

3729

[fol. 1119] Commissioner Geiger: Let me ask a general question. You have quoted prices here at various places, Birmingham, Pittsburgh and Lorain on different classes of pipe. From what source did you get that information as to your quoted value?

The Witness: The price of cast iron pipe f. o. b. Birmingham is from an authentic publication in the trade known as the Iron Age which quotes weekly pipe prices. The prices of wrought iron pipe and wrought steel pipe are coincident with the prices used by the company because of study that I made of quoted prices together with my knowledge of the market which revealed to me the fact that the prices used for wrought iron pipe and steel pipe were reasonable market prices as of that date.

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[fol. 1120] Commissioner Geiger: But did you have a quotation, an actual quotation for the wrought iron and steel——

The Witness: To me individually?

Commissioner Geiger: The same as I would have. You say——

The Witness: The Columbus Gas & Fuel Company——

Commissioner Geiger: All right; there is no difference, go ahead.

Mr. Turner: Well, I would like to understand that last answer, whether or not he had a quotation.

Commissioner Geiger: He answered that he took the quotation furnished to the company.

Mr. Turner: Well then he got no such quotation as he has given here from the company.

Commissioner Geiger: Is that the substance of your answer? You took the quotations that you used for Pittsburgh, and Lorain, from the company's records in this case?

The Witness: For wrought iron and steel they are the same as the company has priced in its unit costs, yes.

By Mr. Huffman:

Q. The only difference, they are extended to cast iron pipe, as I recall.

A. Yes, sir, that is correct.

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[fol. 1121] Q. Directing your attention to what has been marked for the purposes of identification as City's Exhibit Number 67, Mr. Allensworth, is that such an exhibit?

A. It is.

Q. You may turn to Page Number 1 of the Exhibit and tell us what in general you have set up on this page?

A. Perhaps it might be better to explain generally what the exhibit is by explaining that what has been marked City's Exhibit Number 67 is an exhibit containing three collations of accounting detail and book accounts, and on Pages 4 and 5 of this Exhibit, there appears detail that supports the amounts appearing on the other pages. With particular reference to Page 1 of what has been marked City's Exhibit Number 67, this is a collation or a statement, if you please, noting differences and agreements of the company's claims as per company Seyffert Exhibit Number 10, as to income and expenses, and the company's expense as per the company book accounts for the twelve months of the year 1929. The first item appearing on this

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[fol. 1122] page is natural gas distributed in thousands of cubic feet on m. c. f., and the amounts appearing opposite that title namely, 5,848,495, appears in both the column titled Company Seyffert Exhibit Number 10 and Company's book accounts. There is no amount in the column entitled differences; therefore, that is to be interpreted to mean

that the amount shown in what has been introduced in this case as Company Seyffert Exhibit Number 10 for the number of cubic feet of gas distributed within the City of Columbus during the year 1929 coincides with the company's book accounts.

The next general title is gross revenue. Under that, the first item we have is gas revenue, and opposite that title is the amount $2,861,918.33.

Q. Well, there is no difference in those?

A. There is no difference between the book account and the amount shown in Company Seyffert Exhibit Number 10, after allocation to the City of Columbus.

The next item, miscellaneous shop and other revenues; opposite that title it shows that in company Seyffert Exhibit Number 10, there is no inclusion in that statement of what is accounted for in the company's accounting as miscellaneous shop and other revenues. The book account for the 12 months of 1929 reveal $4,551.26 for this item, after allocation to the City of Columbus. This is what is accounted for in the company's book account as revenue from material furnished and labor performed on the customer's promises; that is the amount allotable to the City of Columbus is shown here in the amount of $4,551.26.

Q. That is the only difference in gross revenue, is it

3874

[fol. 1123] not?

A. It is; and that particular revenue is particularly incident to natural gas operation.

Q. Now, under gas purchased for re-sale, you have a difference; will you please explain that difference?

A. In what has been marked Company Seyffert Exhibit Number 10, the company bases its statement on an assumed purchase of gas for re-sale in the amount 6,225,075 cubic feet. The Company's books reveal, as accounted for as purchased for distribution in the City of Columbus, 6,084,655 cubic feet.

Q. Cubic feet or m. c. f.?

A. M. c. f. pardon me. The Company's book accounts reveal actual gas purchased for distribution during the year ending December 31, 1921, 6,993,512 m. c. f., of which amount 6,084,655 m. c. f. is allocated to natural gas operations within the City of Columbus as shown on Page 7 of Company Seyffert Exhibit Number 10.

On Page 3 of Company Seyffert Exhibit Number 10, the company shows as the amount of gas it would be obliged to purchase to distribute the 5,848,495 m. c. f. of gas accounted for as distributed during that same year, 6,255,075 m. c. f., which is arrived at by attempting to increase the number of cubic feet of gas accounted for as distributed by six and a half per cent. The error in the company's arithmetic in this particular has been explained in my previous testimony. The amount of gas alleged to have been necessary to have purchased is increased by 26,378,000 cubic feet as a result of that error in arithmetic. However, the amount of gas actually accounted for by the company as purchased for distribution within the City of Columbus during the 12 months of 1929, which amount is revealed in Company Seyffert Exhibit Number 10 at Page 3875 [fol. 1124] 7 is 6,084,655 m. c. f., which amount includes gas used in company operation, so that the amount claimed by the company in company Seyffert Exhibit Number 10, Page 3, has the number of cubic feet necessary to purchase to distribute the amount of gas accounted far as distributed within the City of Columbus during the 12 months of the year 1929, is according to the company's accounting and allocation, 170,420,000 cubic feet more than the number of cubic feet the company actually purchased during that year to meet requirements of the amount of gas actually accounted for as distributed.

Q. Under the cost of gas purchased for re-sale, you have quite a sizable difference, which you may explain.

A. The company's books reveal the amount $2,222,005.11 as the amount actually paid for gas purchased during the 12 months of 1929 for re-sale after allocation to operation within the City of Columbus. The amount paid during the first six months of that year was at the rate of 31.2 cents per m.c.f.. The amount paid during the last half of that year was at the rate of 45 cents per M. cubic feet. The average price paid during the year was 36.52 cents per M. cubic feet. In company Seyffert Exhibit Number 10, the amount claimed by the company as the cost of gas purchased for resale appears in the amount $2,814,783.75, which is in excess of the amount actually paid for gas purchased for distribution in Columbus in the amount of $592,778.64.

Mr. Turner: Mr. Huffman, will you permit a question as to whether that is due solely to the change in price and this mistake in calculation of the amount?

Mr. Huffman: Yes, we will yield to that question.

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[fol. 1125] By Mr. Turner:

Q. Is that correct?

A. This excess results from inflation of 170,420,000 cubic feet in the number of cubic feet of gas accounted for as actual purchase for re-sale in the City of Columbus, and also from applying 45 cents as the purchase price whereas the price actually paid for gas purchased for resale was an average of 36.52 cents per M. cubic feet.

Q. Wasn't the price, Mr. Allensworth, up to the first of July, one thing, and after the first of July, another; isn't that a fact?

A. I don't know whether it is or not. I know that the company's books reveal that the price paid for the first six months was 31.6 cents per M. cubic feet.

Q. Exhibits have been introduced here showing 45 cents as the contract price after the first of June; you assume that to be the fact, don't you?

Commissioner Bricker: It is set out in Exhibit 61, I think.

The Witness: Pardon me, I think that is a question which should be addressed to counsel; that is a legal question.

Mr. Turner: All right.

Mr. Butler: He has already stated in his testimony the first half was so much and the last half 45.

Mr. Turner: That is all I wanted to get him to state and he didn't do it. He gives an average——

Commissioner Geiger: And I understand Mr. Allensworth that he seemed to indicate that the amount of gas, irrespective of price, there was a difference both in the amount of gas purchased for re-sale as testified by Mr.

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[fol. 1126] Detrick and shown by the books.

The Witness: That is correct, Your Honor; and I will repeat for Mr. Turner's benefit that the books reveal that the amount paid as the wholesale price of gas for the first six months of 1929 was 31.2 per thousand cubic feet and that the price paid for the last six months of 1929,

was 45 cents per thousand cubic feet, the average amount being 36.52 per thousand cubic feet.

Mr. Turner: That is all I wanted.

By Commissioner Geiger:

Q. But there is no difference in the quantity of gas?

A. Yes there is a difference of 170,420,000 cubic feet.

— Well, where did that come from?

A. The company in Company Seyffert Exhibit Number 10 instead of taking the actual amount of gas purchased during 1929 for distribution in the City of Columbus takes the amount of gas sold—accounted for and sold in the City of Columbus and seeks to increase that amount by 6½ per cent. The first error lies in the fact that the arithmetic followed was wrong, and it produces more than 6½ per cent. increase. Secondly, the amount of difference between the amount of gas sold and the amount of gas distributed in 1929, was not 6½ per cent.; it was 3.97 per cent., and that accounts for a difference or an inflation of 170,420,000 cubic feet of gas.

Q. That amounts to $592,778.00?

A. That together with the difference between a total of 36.52 cents per thousand cubic feet and 45 cents per thousand cubic feet. There are three elements of error—that is in my opinion, I call them errors. The first is the erroneous application of percentage, secondly, is allowing more

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[fol. 1127] than the actual experience of the company for unaccounted for gas. Third, is the employment of a price for gas which was not paid during the whole twelve months' period of 1929.

Mr. Turner: One of those will be admitted; the other two will be disputed.

Mr. Huffman: Very well. Are there any other questions?

Mr. Turner: No, thank you, Mr. Huffman.

By Mr. Huffman:

Q. Now, Mr. Allensworth, between Company's Seyffert Exhibit Number 10 and the company's book account there appear no differences for gas purchased expense, distribution expense, utilization expense, commercial expense and new business expense?

A. No, there are none.

Q. But under rate case expense, you have noted a difference here which you may discuss?

A. The Company's books reveal for the item rate case expense charges aggregating $25,242.20 for the 12 months of 1929. After increasing this amount to $50,814.02 alleged to be an annual average over a five year period, the company allocated the entire $50,814.02 amount to Columbus Natural Gas Operation. The amount of the increase is the difference here revealed, namely $25,571.82.

Q. Under general expense, there is no difference?

A. No, sir, there is not.

Q. Now, in gas used in operation, you have got those entries in parenthesis; will you please tell us what that is?

A. The company books reveal credit for gas used in the operation, that is, allotable to the City of Columbus, in the amount of $1,801.44. The same amount is included as a credit item in Company Seyffert Exhibit Number 10. There consequently appears no amount in the different

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[fol. 1128] columns. That credit is a good entry, and account for the amount of gas purchased in the total amount of gas purchased, but consumed in operation.

Q. Under miscellaneous shop and other expense, there is an amount carried in the book account which is not carried into Company Seyffert Exhibit Number 10, is that correct?

A. Yes, the company's book accounts reveal a credit balance in miscellaneous shop and other expense in the amount of $6,219.98. The company in Company Seyffert Exhibit Number 10 accounts for neither miscellaneous shop and other revenues nor miscellaneous shop and other expense, hence the difference here revealed for this item, namely, $6,219.98.

Q. Does that have anything to do with the miscellaneous shop and other revenue referred to above under gross revenue; is there any connection between those two?

A. Yes. That is the expense item that ordinarily offsets miscellaneous shop and other revenue. In the particular year 1929, it happens that the net effect of charges was a credit balance at the end of the year in the expense column.

Q. The totals exclusive here of gas purchased, Mr. Allensworth, are just the totals of the figures appearing above in those columns?

A. Yes, opposite that title appears in the respective columns the sums of the expense items exclusive of gas purchased.

Q. That is in this particular block of items.

A. Yes, sir.

Q. Under operating expenses including cost of gas purchased, what totals are those?

A. Those amounts appearing in the three respective columns are the sums of all prior expense items in the

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[fol. 1129] three columns, inclusive of cost of gas purchased.

Q. But those are grand totals?

A. Yes, sir, to that point.

Q. You may explain the difference which you have found here in depreciation expense between the account and the Exhibit?

A. The company alleges in Company Seyffert Exhibit Number 10, at page 8, that for the purpose of testing the fairness of rates, it should be entitled to account for an annual charge for depreciation in addition to annual charge for depreciation of autos and trucks, the amount $177,617.36, which is stated to be 4 per cent. of alleged reproduction cost less depreciation of depreciable property in the amount of $4,440,434.00. That amount will be found in Company Seyffert Exhibit Number 10 at Page 6. This amount, $4,440,434.00 is the company's total estimate reproduction cost new less depreciation of physical property exclusive of land, rights of way, general garage equipment and overhead charges on land and rights of way. The land mentioned included both distribution system land and other general land. In this total alleged reproduction cost less depreciation, there is error in the amount of $8,070.00 as compared with Company Welker revised Exhibit Number 2. This error is the result of revision downward and corrections in Company Welker Exhibit Number 2, and not carrying the corrections forward to company Seyffert Exhibit Number 10. The company alleges total accrued depreciation on mains as of December 31, 1929, in the amount of 17.13 per cent. of alleged reproduction cost of mains as of that date. The weighted average though of the mains of the company's plant allotable to Columbus is approximately 20 years. The company, though, claims that during

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[fol. 1130] this 20 years, its mains have depreciated at a rate of only .86 of one per cent. per year. This would seem to be at variance with the company's claimed requirements of 4 per cent. per year on depreciable property exclusive of autos and trucks in addition to maintenance expenses for depreciation of its property as a whole.

Mr. Turner: Of course, that is an argument, if the Commission please.

The Witness: During the year 1929——

Mr. Huffman: It is a fact.

Mr. Turner: Oh, no. The question of maintenance and the replacements of all those things have nothing to do with the present situation.

Mr. Huffman: Well, the figures are there for argument later.

Mr. Turner: He is making the argument now.

Commissioner Geiger: Well, he is confining himself to an explanation of the figures.

Mr. Turner: Well, as long as he does that, I haven't any objection.

The Witness: During the year 1929, the company charged as depreciation expense allotable to Columbus, $88,367.69 over and above maintenance expenses and over and above depreciation of autos and trucks. The amount actually charged during the year is equal to 2 per cent. of the company's base from which it computes depreciation in Company Seyffert Exhibit Number 10, namely, $4,440,434.00. The difference shown as the difference between the company's claimed charge for depreciation in Company Seyffert Exhibit Number 10 and the company's actual charge

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[fol. 1131] for depreciation during the 12 months of 1929, is the result of these circumstances and amount to as here revealed, $89,249.67.

By Mr. Huffman:

Q. There is no difference between the account and the Exhibit as to the various tax items, Mr. Allensworth?

A. No, there is no difference in those items.

Q. Then the total expense including depreciation and taxes appearing here is merely the sum of the figures from operating expense including cost of gas purchased down as shown on this page.

A. Yes. The amounts appearing opposite that title are the sums of preceding amounts, and in view of the previous explanation, I believe they should be self explanatory.

Q. How do you arrive at the net income available for return on investment as you have set forth the amount and the difference at the bottom of Page Number 1?

—. The amounts opposite that title reveal amounts by which the total expenses including depreciation and taxes exceed the respective items of gross revenue. The amount in Column titled "Difference", namely, $718,371.37 is the amount of alleged loss by which the amounts revealed in Company Seyffert Exhibit Number 10 exceed the alleged loss as revealed in Company's book accounts; in other words, the seeming loss from natural gas operation in the City of Columbus during the 12 months of 1929 namely, $81,437.27 is increased nearly ten times to the amount $799,808.64 in the company Seyffert Exhibit Number 10.

Q. You may turn to Page 2 of the Exhibit, and there your natural gas distribution entry is the same *of* that on the preceding page, is it not?

A. Yes, on Page 2 there is revealed a collation or a comparative statement noting differences and agreements of 3883 [fol. 1132] the company's expense during the year, 1929, as per book accounts, and those book accounts as interpreted by myself. The first item, the number of cubic feet accounted for as distributed within the City of Columbus appears opposite the title "Natural Gas Distribution M. C. F. and shows that the company's book- reveal 5,848,495 M. cubic feet, and my interpretation is the same amount.

Q. Well, now, under gross revenue you have a gas revenue, miscellaneous shop and other revenue and the total, and as between those items of the company's book account, and your interpretation in City's Exhibit Number 61, there is no difference?

A. There is no difference in those items, no, sir.

Q. And there is no difference, I take it, under gas purchased for resale, is there?

A. A difference of 1,000 cubic feet, which is due to fractional amounts, as a result of allocation, the fractional amount being increased to the next unit amount, 1,000.

Q. Under the cost of gas purchased for resale, you have a difference of $323,592.44 appearing. How do you arrive at that difference?

A. This difference is due to the fact that the amount paid for gas purchased for resale during the 12 months of 1929 was 31.2 cents per thousand cubic feet for the first six months, and 45 cents per thousand cubic feet during the last six months of the year, the average being as stated with reference to the other collation, 36.52 cents per M. cubic feet. In my interpretation of the book account for the year 1929, I have used 31.2 cents per M. cubic feet as the price payable for gas purchased for resale, which is the amount paid during the first six months of 1929, and is the

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[fol. 1133] price specified in what is known as the 1914 contract. This results in a difference here revealed for this item in the amount of $323,592.44.

Q. That is expended through the year?

A. Yes, sir.

Mr. Turner: We understand you, Mr. Huffman, to mean that if the company had not paid the advanced price of 45 cents, there would have been a difference of $323,000.00?

Mr. Butler: If the company had paid what it legally should have paid.

Mr. Huffman: If it had paid 31.2 cents.

Mr. Turner: If it had not observed the other contract.

Mr. Huffman: That is right. That is the method by which the figure is arrived at.

Q. Under gas purchased expense, Mr. Allensworth, you have no difference as between the company book account and your interpretation in city's exhibit 61?

A. No, sir, there is not.

[fol. 1134] Mr. Allensworth further testified on cross-examination:

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[fol. 1135] Q. Mr. Allensworth, what was your reproduction cost new before depreciation on rights of way? Are you examining a city Exhibit? May we look at the same number? If you will tell us the one, it will save time.

A. That question is answered on Page 1 of what has been marked City's Exhibit Number 56. The amount is $5,072.00.

Q. Is that your valuation?

A. No, sir.

Q. All I asked you, Mr. Allensworth, was your reproduction cost. What is your reproduction cost?

A. I do not believe that I understand the question. The amount that I have included in my total reproduction cost is $5,072.00.

Q. You made a reproduction cost of that item, did you not?

A. No, sir.

Q. You did not?

A. No, sir.

Q. No work sheets?

A. No, sir.

Commissioner Geiger: Did you adopt that of the company?

Mr. Turner: Yes.

The Witness: Yes, sir.

Mr. Turner: But that is another question.

4119

[fol. 1136] Commissioner Geiger: Why bother with work sheets then.

Mr. Turner: Why, I am not boob enough to think that they adopted it without making some figures.

Commissioner Geiger: Oh, well, I see. All right, excuse me.

Q. Did you make any reproduction figures on district regulator structures?

A. No, sir.

Q. Submitted nothing to counsel on that at all?

A. No, sir.

Q. Did you make any reproduction figures on measuring station structures?

A. No, sir.

Q. Why not? The question is why not, Mr. Allensworth?

A. That was one of the items I was instructed by counsel to use in my reproduction costs.

Q. Did you make any reproduction figures for holder station structures?

A. No, sir.

Q. Did you make any reproduction figures for district regulators?

A. No, sir.

Q. Did you make any estimates for any of these things about which I have asked you?

A. No, sir.

Q. Make any figures of any kind on them?

A. No, I don't think so.

Q. You don't think so? You had a good memory, haven't you?

A. Yes, sir.

Q. What is the answer then? Did you or did you not?

A. I don't think so.

Q. I am not satisfied with the answer. I would like to have yes or no. You know whether you did or not.

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[fol. 1137] Mr. Huffman: I think we discussed all of these things. Of course, we did.

Mr. Turner: As I told you before, Jim, we will put you on the stand.

Mr. Huffman: I have a right to even up a little in this record. You have been on the stand for about three-fourths of the case.

Commissioner Geiger: Let me ask——

Mr. Turner: Throw out the life line; throw out the life line. You ought to be able to sing the old hymn.

Commissioner Geiger: Let me ask a question. Are there certain items which you adopted at the same figures that were advanced by the Company? Oh, well, withdraw the question.

The Witness: I did not understand the question. Did you ask me if there were? There are.

Commissioner Geiger: As to those, you made no estimate as to valuation, simply took the figures the company had taken and adopted them as your own; is that correct?

The Witness: Yes, sir.

Q. Why didn't you take all of the figures of the company then and accept them?

A. I was not instructed so to do by counsel.

Q. Do you make appraisals that way?

A. Yes, sir.

Q. Did you make any reproduction cost figures or any estimate of any kind on the reproduction cost or value of

anything else as to the gas holder appurtenance equipment or the gas holder?

A. No, sir.

Q. Or the house regulators?

A. No, sir.

4121

[fol. 1138] Q. Or other district equipment?

A. I suspect you mean other distribution equipment, do you not?

Q. Thank you for the correction. Other distribution equipment. What is the answer?

A. No, I did not.

Q. Other general structures?

A. No, sir.

Q. General office equipment?

A. No, sir.

Q. General shop equipment?

A. No, sir.

Q. General garage equipment?

A. No, sir.

[fol. 1139] Mr. Allensworth testified on direct examination as follows:

3605

[fol. 1140] What then is your final figure for the reproduction cost new less depreciation of The Columbus Gas & Fuel Company's property used and useful within the City of Columbus as of December 31, 1929?

Mr. Turner: Objection on the additional ground that he has made no such valuation.

Commissioner Geiger: I would be more inclined to sustain the objection so far as I am personally concerned. It is just simply a repetition of what is set down here. But the objection is overruled and exceptions noted.

Q. You may answer.

A. Reproduction cost new less depreciation or sound value of property of The Columbus Gas & Fuel Company for service within the City of Columbus, Ohio, as of December 31, 1929, as a going concern, $3,355,510.

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[fol. 1141] Subtracting the amount shown here as total expense from the total revenues, that is the total revenues appearing in the amount of $2,866,469.59; deducting from

that the total expense in the amount of $2,525,638.68, produces a net amount available for return on investment or return on the sound value of the Company's property $340,833.91.

Mr. Turner: I move to strike out the $340,833.91 for the reason that his computation does not show any provision for surplus.

By Mr. Huffman:

Q. However you may have arrived at that, Mr. Allensworth, that is your figure for net income according to your set-up here?

Mr. Turner: Well, wait until I get a ruling.

Commissioner Geiger: Objection overruled.

Mr. Turner: Note an exception.

4282

[fol. 1142] The next item, "Net income available for return on investment" in the amount of $290,968.34, was produced by subtracting the total of expenses from the total of income and is equal to 8.7 per cent on $3,355,510.00 sound value of property of The Columbus Gas & Fuel Company used and useful in supplying natural gas service within the City of Columbus, which sound value is revealed in City's Exhibit Number 59.

Q. And that amount is arrived at, using a basis of 31.2 cents per thousand cubic feet wholesale price?

A. Yes, it is.

4282

[fol. 1143] Q. Well, Mr. Allensworth, have you made a study of the effect of the wholesale price of gas upon the net return, Columbia Gas & Fuel Company?

A. Yes, I have. That study is revealed in Pages 2 to 7, inclusive, of this Exhibit, wherein is set forth the effect of various wholesale prices of gas in the City of Columbus, ranging from 20 cents to 45 cents.

Directing particular attention to Page 4 of this Exhibit and the first column on that page, titled "26 cents," that column reveals that if the wholesale price of gas for the City of Columbus was 26 cents instead of 31.2, which is the amount used for the wholesale price of gas on Page 1 of

4283

[fol. 1144] this Exhibit, the net return to the Columbus Gas & Fuel Company would be practically 17 per cent, or, in fact, 16.793 per cent?

Mr. Huffman: No further explanation is required, I guess, in connection with City's Exhibit Number 69. We offer it in evidence.

Mr. Turner: Just an objection and exception.

Commissioner Bricker: Objection may be noted. Save your exception.

Mr. Turner: Of course, we have just got a copy of it this morning. We have never seen it before.

And thereupon the paper writing above offered was introduced and admitted in evidence on behalf of the City of Columbus, and is herewith submitted, marked City's Exhibit Number 69.

[fol. 1145] Mr. Burgess testified as follows:

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[fol. 1146] Q. Have you, Mr. Burgess, prepared an exhibit showing your estimated cost of installing the mains of the Columbus Gas & Fuel Company's system as of December 31, 1929?

A. Yes, sir.

Mr. Huffman: You may mark this document for purposes

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[fol. 1147] of identification as City Exhibit No. 68.

And thereupon the document last above referred to was marked for the purposes of identification herein as City Exhibit No. 68.

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[fol. 1148] Q. I have just handed to counsel for the company what has been marked for the purpose of identification City Exhibit No. 68, and given two copies to the Commission: I now direct your attention to what has been marked City Exhibit No. 68 and ask if that is a set-up of your estimated cost of installing mains as of a date certain?

A. Yes, sir.

Q. Mr. Burgess, has your experience as an engineer and contractor in the vicinity of Columbus given you a general knowledge of the soils of this vicinity?

A. I have lived in Columbus 25 years and my observation, in addition to my work mentioned here, has given me a knowledge of soil of Columbus.

Q. Is your experience such that you would feel competent to make an estimation of excavation in connection with laying pipes in this soil for the purpose of contracting work.

A. Yes, sir.

Q. Are you familiar with the character of excavation which would be required for laying mains of the Columbus Gas & Fuel Company as of December, 1929?

A. Yes, sir.

Q. What average cover do you figure for laying mains

3738

[fol. 1149] for this company?

A. 30 inches.

Q. Can you tell us whether or not at the depth you would dig a trench for gas mains in the City of Columbus, there would be any rock excavation?

A. I have never seen any except an occasional what we call niggerhead, a small one man stone.

Q. Are there boulders?

A. Boulders are quite scarce.

Q. The boulders are what you have just referred to; you have seen some rather large single stones.

A. Occasionally you will strike one, yes.

Q. Is there any hard pan? That is, that area to be excavated, in that depth?

A. Oh once in a great while you see a little hard pan.

Q. Do you find any quicksand?

A. Not at that depth, no, sir.

Q. Well, now, as a contractor, in figuring the necessary performance, for bidding on a job of this nature, do you consider average performance?

A. Yes, sir.

Q. Do you take into consideration all of the obstacles that are possible of being encountered, delays from rain and that sort of thing?

A. Yes, sir.

Q. Then considering all of those elements you arrive at the average performance for your work?

A. Yes, sir.

Q. Mr. Burgess, as a contractor, I presume you employ labor?

A. Yes, sir.

Q. Are you familiar with the prevailing labor wage rate for Columbus and vicinity as of December 31, 1929?

A. Yes, sir.

Q. Will you please tell us what the average wage per hour was for laborers who were being paid by contractors, or employed in this vicinity as of the date certain?

A. Common labor —

3739

[fol. 1150] Q. Under "Trenching and Backfilling," what would be the set-up of your gang?

A. I have 86 men, including 45 men digging trench, 20 men backfilling, 12 tampers, 4 cleaning out the trench, two water boys, two watchmen, 1 blacksmith.

Q. What rate of pay have you included for these various workmen?

A. 40 cents an hour for everybody except the water boys and blacksmith. The water boys I have placed them at 30 cents an hour and the blacksmith at 50 cents an hour.

Q. Then your last column on that page simply shows the total of those amounts, applying the wage rate to the number of men?

A. That is correct.

Q. Now under "Trenching" you have made a set-up which I wish you would discuss.

A. Do you mean installing pipe? The figures I have just given were the trenching. The next figures under this are installing pipe.

Q. Well under that heading what have you?

A. I have 13 men in that gang handling the pipe and making the joints. Under "Handling pipe" I have 4 men, two men on the lead kettle, 5 caulkers, two yarners and then in addition I have four man hours for testing.

Q. Explain that, will you please, Mr. Burgess, how your men work the test?

A. The testing would be done at the end of the day's work, or near the end of the day's work by pumping air into the line and using soap suds to find leaks. I put a little extra labor in that. I think probably that would be done by the caulkers.

Q. What wage rate have you included for these men?

A. 40 cents an hour for the common labor; the caulkers at 50 cents an hour, the yarners at 45 cents an hour and the

3740

[fol. 1151] testing at 50 cents, the same rate as the caulkers.

Q. And the total there in the last column is the total of the amount of wages that you have arrived at by applying the wage rate to the number of men?

A. Yes, sir.

Q. Under "Pipe Laying" you have provided for superintendence; explain that?

A. For superintendence I show that it requires four men. I will have one man on the trenching and backfilling——

Q. Does this superintendence include trenching, backfilling and laying of pipe?

A. I would have one foreman supervising the trenching; I would have another foreman handling the pipe; I would have a third foreman handling the backfilling, and over the whole job I would have one superintendent.

Q. How much would you pay those foremen?

A. I would pay the foremen 60 cents an hour and the superintendent 80 cents an hour.

Q. Then your total gang would consist of how many men?

A. 103.

Q. Have you provided for the use of trucks in that set-up?

A. Yes, sir.

Q. How many trucks would that gang require?

A. 1.

Q. What capacity truck would you figure on for that sort of work?

A. A three ton or a four ton truck.

Q. And are you familiar with the prevailing price for the use of that sort of a vehicle as of the date certain?

A. Yes, sir.

Q. How much?

A. About $2.00 an hour.

Q. And you have presumed it would be employed for

3741

[fol. 1152] eight hours or simultaneously with the work of your gang?

A. Yes, sir.

Q. Have you figured on this construction as to the length of time required?

A. Yes, sir.

Q. What length of time have you used?

A. Three to three and a half years. It might be three years or might be three and a half, depending upon weather conditions.

Q. Do you understand that the date certain is December 31, 1929?

A. Yes, sir.

Q. Would your period of construction extend forward from that date or backward?

A. Forward.

Commissioner Geiger: Well on what labor rate would you base it, the labor rate existing now or the labor rate existing at the date certain?

The Witness: The date of this appraisal, the date certain.

Commissioner Geiger: You wouldn't be influenced at all by the drop in labor rate since that time?

The Witness: I would ordinarily consider changes in labor rate, yes, sir; as a contractor you have to do that. A man starting in on a three year job, you must consider what prices are going to be, whether they are going up or down; if you don't, you get stung. If prices go up and you get a job at the prevailing price, you lose money.

By Mr. Huffman:

Q. You may explain your performance as included on page 1 of this Exhibit, Mr. Burgess.

A. Under "Total Performance," at the bottom of the page, I have taken one man working 8 hours, he will excavate 5.0 cubic yards or equivalent to .625 cubic yards per

3742

[fol. 1153] man hour. The total man hours on excavation is 45 times 8 or 360 man hours a day—no, pardon me, that is man hours. Then in the other column——

Q. That is what you have, 360 man hours per day?

A. Yes, sir, that is correct, for one day's performance.

Q. That is for digging trenches.

A. Yes, sir, that is what I am talking about, excavating. Now in 8 hours the total performance on excavation is 360 times the performance per man hour or .625, equivalent to 225 cubic yards or 6075 cubic feet. I find the number of cubic feet per lineal foot of 6 inch pipe to be 6.0.

Q. That is the cubic feet of earth dug per foot of pipe installed would be 6.0 cubic feet?

A. Yes, sir, and the number of lineal feet of pipe line completed would, of course, be the total cubic feet excavated by the gang divided by 6 or 1013 lineal feet, and the cost

per foot of pipe trench for all labor is the total cost of the gang or $369.60, and the unit cost per foot is $369.60 divided by 1013 cubic feet or 35½ cents per foot.

Q. That is the cost per foot of pipe and trenching?

A. And installing, yes, sir.

Q. For all labor?

A. Yes, sir.

Q. Have you included amounts separately for loss and use of tools?

A. Yes, sir.

Q. What amount?

A. $10.00 a day.

Q. Is that, in your judgment as a contractor, a fair allowance for loss and use of tools in a gang of this size and in construction of this nature?

A. Yes, sir.

Q. Then you would include nothing separately in an overhead for that; it is entirely taken care of in this figure?

3743

[fol. 1154] A. Yes, sir.

Q. What then is your total cost per foot?

A. 36½ cents.

Q. Now, Mr. Burgess, how many gangs of this size——

Commissioner Geiger: What size is that?

Mr. Huffman: 6 inch.

Commissioner Geiger: 36½ cents per foot.

Mr. Huffman: Yes, that is cast iron; 6 inch cast iron gas pipe.

By Mr. Huffman:

Q. What does this 36½ cents per foot of 6 inch cast iron gas pipe that you have arrived at on page 1 of this exhibit include?

A. It is the final amount showing the total cost of the several operations indicated on page 1 which includes labor cost and superintendence.

Q. That is, excavation, laying of pipe, backfilling, temping and superintendence, and the allowance for loss and use of tools?

A. Yes, sir.

Q. How many gangs of this size would you use during this period of construction?

A. It would take two and at times I believe you would require three. Again, it gets into the question of weather conditions.

Q. Have you had experience organizing gangs of this nature and supervising them?

A. Yes, sir.

Q. Have you so organized your gangs so as to get a complete performance?

A. Yes, sir. This performance——

Q. Proceed.

A. This performance is based also on observations of a gang working in Columbus today.

Q. What observation do you refer to?

A. The installation of cast iron water pipe in East Broad Street. I have taken the gang organization on that particu-

3744

[fol. 1155] lar piece of work several times and naturally find that the gang organization varies slightly. The organization that I have set up, though, on page 1, corresponds very closely with the average organization on this gang working on East Broad Street today.

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[fol. 1156] Wednesday Afternoon Session,
July 15, 1931.

And also—

PHILIP BURGESS, resuming the stand, continued his testimony as follows:

Examined by Mr. Huffman:

Q. When we adjourned, Mr. Burgess, you were discussing the gang organization and gang performance. Have you in your set-up figured a performance that will cause excavation and pipe laying and back filling and tamping to be done in proper sequence and at the same time?

A. Yes, sir.

Q. Is it the idea in this type of work to have the trenching done just ahead so that everyone will be at work?

A. Yes, sir.

Q. What is the advantage of the use to a contractor of a large gang as compared with a smaller gang?

A. It reduces his overhead expenses.

Q. Will you be a little more explicit on that; tell us how it reduces the overhead?

A. Well, take the watchman. Under this set-up that I have on Page 1, trenching and back filling, I have two watchmen, two water boys, and a blasksmith; and under total superintendence, I have three foremen and one superintendent. Now, with a smaller gang, you would have for instance, possibly one water boy, you still have the two watchmen; you should have on blacksmith; you would have a foreman in charge of part of your operation, and you still have your superintendent. You can't get along without one

3746

[fol. 1157] truck to take care of the excess dirt; so in a general way, if your gang is too small, these costs that I have just mentioned are distributed over small labor costs and become a higher percentage of the total.

Q. And with a number of small gangs, you will have more watchmen and more water boys?

A. Yes, sir.

Q. More superintendents?

A. More superintendents.

Q. You would have to have more trucks and so forth?

A. Yes, sir.

Q. Would you impair the efficiency of your gang by the use of a larger gang so far as those aspects of your performance are concerned?

A. Yes, I believe you would. If you get, for instance, too many men on the printing, that it will go faster than your pipe handling gang can keep up with; the same thing is true of your back filling. Back filling and trenching out to be proportioned; the gang should be proportioned to take care of the work that the pipe laying gang can perform.

Q. Well, with the size gang that you have set up here, can you get efficient operation?

A. Yes, sir.

Q. You have figured a gang here that will keep everyone moving?

A. Yes, sir.

Q. What is the measure of the progress of performance, Mr. Burgess? What feature of the performance?

A. The gang that I have set up, I have considered that the gang installing the pipe will determine the speed of the entire organization.

By Commissioner Geiger:

Q. I noticed yesterday in passing out East Broad Street, that they were laying some water pipe, and it appeared to be about ten inch pipe——

3747.

[fol. 1158] Mr. Turner: Sixteen, Your Honor.

Q. Is that done by private contract or by the city, or do you know?

A. That is being done by the City Water Works Department. That gang is the gang that I referred to this morning in my testimony.

Q. That gang is according to your set-up on this page?

A. Yes, only, of course, you will notice that I have changed as I go along, the pipe handling or installing pipe gang. Now, under the sixteen inch pipe I have fourteen; under the six inch pipe, I have four.

Q. Now, on your estimate of the cost here have you taken the depth of the trench for a gas pipe or for water pipe?

A. Gas pipe.

Q. Are you taking the standard and proper depth?

A. I have taken a depth of thirty inches, that is cover over the pipe.

Q. Uniformly?

A. Yes, sir.

Commissioner Geiger: I don't think it is necessary probably to go too much into detail. The Exhibit shows for itself what he has figured on. They will bring it all out in cross-examination.

By Commissioner Bricker:

Q. Did you figure any difference in the cubic yards that would be moved by a laborer in the deeper trench for the larger sized pipe than the smaller size?

A. I have taken uniform performance all the way through.

Q. It is an average all the way through?

A. Yes, sir.

By Commissioner Geiger:

Q. May I ask one other question. Could you tell me from your experience and observation in the City of Columbus whether the excavation now being made in East Broad

3748

[fol. 1159] Street is a fair sample of the character of soil and excavation that would be required in the City of Columbus?

A. In my opinion, it is, yes, sir.

By Mr. Huffman:

Q. Well, did you know anything about this job on East Broad Street or the gang set-up or the performance when you figured your set-up in this case?

A. I made my set-up first and checked it back—I observed that several days. My performance table here was complete before I had finished checking up on that gang.

Q. Now, you figure then, Mr. Burgess, that the excavation gang performance, back-fill, tamping, labor performance generally, will be figured on the basis you have set up for pipe laying?

A. Yes, sir.

Q. That will be your standard of measure of progress of performance?

A. Yes, sir.

Q. Your other operation must conform accordingly?

A. Yes, sir.

Q. On page number 2 of your Exhibit, you have set up organization of gang labor for the laying of an eight inch cast iron gas pipe, have you not?

A. Yes, sir.

Q. How will that gang differ from the gang which you have set up for a six inch cast iron pipe?

A. It is the same except that under handling pipe, I have six men on eight inch and four men on the six inch.

Q. This gives you two more men to your eight inch gang?

A. Yes, sir.

Q. Giving you what total in this gang?

A. 105.

Q. The set-up otherwise is as on the previous page?

A. Yes, sir.

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[fol. 1160] Q. How many feet will be accomplished on the eight inch?

A. 887.

Q. And that is what increase over your accomplishment on the six inch?

A. My performance under the six inch is 1013.

Q. What is the total cost per foot of pipe of laying the eight inch cast iron pipe as you found it here?

A. Including tools, it is 42.4 cents per foot.

Q. Now, on Page 3, you have dealt with a ten inch cast iron pipe for your organization gang labor for the laying; will you please tell us how that gang would differ from your previous gang for the eight inch?

A. Only that I have added two more men for handling of pipe.

Q. And your total number of men here will be two over the eight inch gang?

A. Yes, sir.

Q. Giving you what number?

A. 107.

Q. Now, what would be your lineal feet of accomplishment for the laying of the ten inch pipe?

A. 785 feet.

Q. As against how many feet for the eight inch?

A. 887.

Q. And including the tool cost, what do you arrive at as the total cost per foot for laying the ten inch pipe?

A. 48.8 cents.

Q. On Page Number 4, you have made a set-up——

Commissioner Geiger: Mr. Huffman, would there be any objection to saying on Page Number 4 to 6, you made a set-up of different diameters of pipe; does that correctly represent your estimate of the cost of laying this pipe?

Mr. Huffman: Well, that is all right, I think, if you don't want us to go into detail in the record.

3750

[fol. 1161] Commissioner Geiger: We can see it.

Q. On Pages 4 and 5, you have made set-ups for performance on twelve inch cast iron main and sixteen inch cast iron main?

A. Yes, sir.

Q. Will your set-up on those pages correspond to your previous explanation with the exception of the increase in the size of your gang?

A. Just a difference in the pipe laying gang on the different sizes.

By Commissioner Geiger:

Q. That is also true of the six?

A. Yes, sir.

By Mr. Huffman:

Q. On Page 6 you have made a set-up for 20 inch cast iron pipe?

A. 20 and 24.

Q. Yes; at the bottom of that page, you have made a set-up for 24?

A. Yes, sir.

Q. And your explanation for the gang performance there corresponds except as to the difference in the manning of your gang?

A. That is correct.

Q. All right. I direct your attention to Page Number 7, on which you have dealt with the cost of joing material for cast iron gas pipe at Columbus; first, for what length?

A. 12 foot lengths.

Q. All right, you may explain your table Number 2, as set forth on Page 7 of the exhibit.

A. The first on the table is the nominal diameter of the pipe. The second column is the pounds of lead per joint. The third column is the unit cost of lead. The fourth column is the cost of lead per joint. The same is true under hemp. Finally, I have a total cost per joint for the size of the pipe indicated equal to the cost of the lead plus the hemp; and finally, in the last column, I have the cost

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[fol. 1162] per foot which is equal to the cost per joint divided by twelve.

Q. You have arrived at that in terms of cost per foot?

A. Yes, sir.

Q. How is the hemp used in that joint?

(No response.)

By Commissioner Geiger:

Q. You have taken there 12 foot lengths?

A. Yes, sir.

Q. Is that standard?

A. Yes, sir.

Q. Then no matter what the diameter may be, twelve foot in the standard?

A. You can buy it in 16 foot lengths. 12 feet I believe is the existing lengths in the system here.

By Mr. Huffman:

Q. How is the hemp used in this work?

A. That is driven around or under the Bell of the pipe, to keep the lead from running into the pipe between the joints.

Q. Now, Table No. 3 on Page 7 sets forth the total cost of trenching and laying cast iron pipe in Columbus as of December 31, 1929, does it not?

A. Yes, sir.

Q. I would like to have you give an explanation of your table as set forth?

A. The first column shows the nominal diameter of the pipe; the second column shows the field expense as taken from Table Number 1. The third column shows miscellaneous expenses of five per cent., which I have added to the cost in the field. The fourth column is the total of the amounts in Columns 2 and 3. The next to the last column shows the joint expense in the amounts carried down from Table 2; and the final column is the total cost per lineal foot for trenching and laying pipe.

Q. Under insurance and miscellaneous, you have included a five per cent. Is that based on your labor cost?

A. Yes, sir.

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[fol. 1163] Q. What is this, in fact, this five per cent., Mr. Burgess?

A. Partly insurance, partly other expenses which would be incurred on the work.

Q. This is really a direct overhead, is it not, the five per cent?

A. I wouldn't call it all overhead, no, sir; some small expenses like the expense of a compressor, possibly the use of a little water in the trench; things of that kind that I have included in here. Those things are very hard to distribute over this job.

Q. That is all included in this five per cent. figure?

A. Yes, sir.

Q. Would you add anything to this five per cent. figure which you have used here for your labor cost?

A. No, sir.

Q. Well, do you find any necessity for including a three per cent. total for a field foreman?

A. My foremen were all included.

Q. In your set-up here?

A. In my field expenses, yes, sir.

Q. And you wouldn't find it necessary as a contractor to add a three per cent. figure for a field foreman?

A. No, sir. My field foreman is included in my expenses under the second column.

Q. Would you as a practical contractor add two per cent. for a field time keeper or material clerk?

A. No, sir.

Q. Is that all taken care of in your set-up as you have made it here, and explained it?

A. Yes, sir.

Q. As far as labor is concerned?

A. Yes, sir.

Q. You have included a flat ten dollars per day for pur-

3753

[fol. 1164] chase, loss and use of tools, have you not?

A. Yes, sir.

Q. In addition to that, you would allow no percentage such as a five per cent. for tools?

A. No, sir. I think that my allowance on tools is quite liberal.

Q. You think that allowance is liberal?

A. Yes, sir.

Q. $10.00 per day?

A. Yes.

Q. Now, under workmen's compensation, as I understand is included in the five per cent. for insurance——

A. Workmen's compensation and public liability insurance.

Q. You wouldn't find it necessary to add a percentage in addition to that?

A. It is included in my five per cent.

—. Would your five per cent. require in addition to that anything for incidental costs, medical examination, securing of labor or property damage?

A. No, sir.

Q. You wouldn't allow anything like a three per cent. figure for that?

A. No, sir.

Q. Your five per cent. then, together with your other costs make your total cost here all inclusive?

A. Yes, sir, that is correct.

Q. At the bottom of Page 7, Mr. Burgess, you have set forth some quotations. I wish you would explain that.

A. Those are quotations current in the engineering news record of December, 1929, for cast iron pipe at Birmingham. They show the cost of four inch cast iron pipe to be from 40 to 41 dollars per ton. Six inch and larger 37 to 38 dollars per ton. Gas pipe in Class A pipe, add three dollars per ton. The freight rate from Birmingham to Columbus, Ohio, I found from inquiry from the New York Central Lines, was $6.97 per ton, as of December, 1929.

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[fol. 1165] Q. That freight rate is an actual freight figure as given you by the New York Central Railroad?

A. Yes, sir.

Q. Your cost here for your six inch and larger, I notice is lower than for the four inch cast iron pipe. Will you please tell us how that difference occurs?

A. There is more labor goes into the manufacture of the smaller pipe; the cost per ton therefore is more in proportion for the smaller pipe.

Q. On Page 8 of the Exhibit, you have set forth the cost of furnishing cast iron pipe at Columbus. Will you please tell us how you have arrived at that cost?

A. At the top of the page, I have a table entitled "Cost of furnishing cast iron gas pipe at Columbus, Ohio" and I have indicated the prices——

Q. Well, this is actually water pipe, is it not?

A. Yes; for cast iron water pipe, delivered along the trench, I find that on April 4th, 1929, for six inch and larger size, they paid $43.00 per ton and purchased 1,300 tons.

On September 5th, 1929, for six inch and eight inch pipe, they paid $42.65. For twelve to twenty-four, they paid $43.25, and that time they bought 1,010 tons. On March 13th, 1930, for four inch pipe, they paid $47.97, and six to twenty-four inch, they paid $44.97, and they bought 1,400 tons. On October 23rd, 1930, for six inch and larger pipe, they paid $44.88, and bought 550 tons. From that, I have figured the cost of cast iron gas pipe as of December 31, 1929, and find the average at the nearest location for water pipe, which I find to be $44.00 and adding $3.00 for differential on gas pipe, and coming to the price of $47.00 per ton hauled and distributed along the trench. That was my price for December 31, 1929.

Q. Well, is it customary on the part of contractors to

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[fol. 1166] buy material of this sort delivered along the trench?

A. No, sir; that is rather unusual, I believe.

Q. Have you added to this anything as an overhead for material?

A. No, sir.

Q. That applies to material only?

A. Yes, sir.

Q. What amount would you include?

A. For purchase and inspection, I have added one per cent..

Q. Have you figured that you would have no hauling expense in a job of this sort?

A. Not in the price that I use, no, because my price is distributed.

Q. You have added also a percentage here for special fittings and valves. Tell us how you reached that conclusion.

A. The amount of material would be about 2½ per cent., and its cost would be about twice that of the cost of the pipe, arriving at five per cent. for the amount allowed for fittings and valves.

Q. You would take a percentage then of the pipe material cost and include that for the cost of special fittings and valves?

A. I take five per cent. of the total cost of pipe.

Q. And you would add that to it?

A. Yes, sir.

Q. Giving you what total?

A. My five per cent. and my one per cent. gives me a total of six per cent.

Q. What then would be your unit prices for this sort of material?

A. This six per cent. amounts to $2.82. That added to $47.00 gives me $48.82 per ton, or 2.49 cents per pound.

Q. It is customary that you figure those in the amount per pound——

A. Yes, sir.

Q. Or per ton?

A. Both ways.

By Commissioner Geiger:

Q. At the bottom of Page 7, you have given 40 and 41 3756

[fol. 1167] dollars per ton for four inch cast iron pipe, and for six inch, 37 and 38. That is three dollars per ton less because as you explain, the labor cost of making a large diameter is less than the smaller diameter?

A. That is per ton, yes sir.

Q. But in a purchase by the Columbus Gas Company on December 5th——

Mr. Turner: Water works.

Q. Yes, from six to eight inch is $42.65 and 12 to 24 is $43.25; in other words, the actual purchase as shown on this table of September 5th, 1929, by the Columbus Water Works though doesn't show that they got the higher diameter price of pipe at $3.00 less per ton as you have set out on the bottom of Page 7.

A. I presume that is a competitive price. There are only a few foundries that make the 24 inch pipe.

Q. Well, would you say that your estimate on the bottom of Page 7 that you can get the higher diameter pipe as $3.00 a ton less be borne out by the actual purchase as shown on Page 8 under date of September 5, 1929?

A. It may or may not.

Mr. Huffman: Well, if Your Honor please, that is a delivered price, is it not, on Page 8?

Commissioner Geiger: That wouldn't make any difference.

The Witness: That wouldn't make any difference if I may say for this reason, that I intended to show in my answer a minute ago, that sometimes the bigger pipe cost you more than the smaller because of the fact there are only a few foundries that make the big pipe and if they are busy, they can get a higher price for their big pipe. That only happens occasionally. Of course, you understand also that my prices I have at the bottom of Page 7 are nothing more
3757
[fol. 1168] than nominal quotations in a trade journal; they are not actual quotations for the pipe.

By Commissioner Geiger:

Q. Your purchase of March 19th, 1930, shows four inch pipe and six to twenty-four inch pipe, and shows a difference of three dollars per ton in favor of the 6 to 24 inch over the four inch?

A. That is correct.

Q. That is an actual purchase?

A. Yes, sir. All these prices are the actual purchase prices.

By Mr. Turner:

Q. That is for water and not gas?

A. Yes, sir.

Q. $3.00 a ton more for gas?

A. More for gas pipe.

Mr. Turner: Add three dollars to all of them for gas.

Commissioner Geiger: I see.

By Commissioner Bricker:

Q. Is it altogether likely there will be a discount from these prices which you list, or from the actual experience in the purchase of small amounts? as these prices were for small amounts here, in a complete reconstruction program like you would have in the City of Columbus?

A. I doubt if there would be any substantial reduction, because of the fact that the city has purchased considerable amounts of pipe. These purchases are quite considerable. They would secure a good competition. I believe, on that amount of pipe.

By Mr. Huffman:

Q. You would use the wholesale method as against the piece meal method in making a construction of this sort, would you not?

A. Yes, sir.

Q. You may turn to table Number 4 on this page and explain what you have set forth there?

A. Table Number 4 shows the cost of cast iron gas pipe furnished and installed at Columbus as of December 31, 1929. The first column is the nominal diameter of the pipe;

3758

[fol. 1169] the second column is the weight per foot; the third column is the cost per foot, using 2.49 cents per pound determined above. The fourth column is the trenching and laying as taken from Table Number 3, and the final column is the total of all these several costs.

Q. That is the total cost per foot that you arrived at?

A. Yes, sir.

Q. For cast iron pipe furnished and installed?

A. Yes, sir.

Q. As of December 31st?

A. Yes, sir.

Q. And for your six inch diameter, what is the cost per foot?

A. One dollar twenty-six cents.

Q. And that varies down to twenty-four inch, and that is what?

A. $6.86.

Q. You have referred here to a hand book known as Cast Iron Pipe Research Association. What is that book?

A. That is a hand book gotten out by the Cast Iron Research Association.

Q. Does it set forth information generally concerning the subject of cast iron pipe?

A. Yes, sir.

Q. And you made reference to it in the preparation of this.

A. Only in selecting the weight per foot. I found some difference by different manufacturers on the weight per foot, and I figured that this book here was the best evidence as to the probable weights.

Q. You have used it as the inditia then of the weight per foot in arriving at your computation here?

A. I didn't get that.

Q. Did you use that as an indication of the weight per foot in arriving at your computation here?

A. Yes, sir.

3759

[Vol. 1170] By Commissioner Geiger:

Q. Let me ask you this question. You are dealing here with water pipe?

A. No, sir.

Q. Well, isn't this all set up as Water pipe?

A. No, sir, none of it.

Mr. Turner: Your Honor is correct, yes.

By Mr. Huffman:

Q. Only with reference to the Columbus experience; isn't that correct?

A. I simply took the water pipe there because the installation of the gas pipe and the water pipe is identical; there is no difference.

By Commissioner Geiger:

Q. But you are dealing here with your estimate of the cost of gas pipe installed?

A. Yes, sir, all the way through.

By Mr. Huffman:

Q. The only variation from that is your set-up at the top of Page 8 which deals with actual experience of the City of Columbus.

A. I took that because in my opinion, that is the best evidence as to the cost of cast iron pipe at Columbus; and the fact that it is water pipe doesn't at all change my opinion because of the known differential between the cost of a water pipe and a gas pipe.

By Commissioner Geiger:

Q. Well, do the two pipes differ somewhat in construction; gas pipe is thicker or thinner wall?

A. It is a thinner wall, and has a little smaller bell.

Q. What is the bell?

A. That is the socket of the pipe.

Q. The fact that gas pipe is a thinner wall and consequently per foot for the same diameter would weigh less than a corresponding diameter of water pipe, would make no difference in the delivering of the pipe or the handling of it or the freight or any other item that went into this estimate?

3760

[fol. 1171] A. In my opinion, no; no, sir, it would not.

Commissioner Geiger: All right.

By Mr. Huffman:

Q. You have made no computation of the wrought iron and steel pipe as of December 31, 1929?

A. No, sir.

Q. That is as to the material?

A. No, sir.

Q. You were informed, were you not, that there was no controversy between the City and the Company as to the material cost for wrought iron and steel pipe?

A. Yes, sir.

Mr. Turner: We insist that there is.

Mr. Huffman: Well, we insist there isn't.

Mr. Turner: We don't want to sit by here and have you put that over on us.

Commissioner Geiger: Well, if they would testify in open court, they are willing to allow the price you claim, you wouldn't want to resist that, would you?

Mr. Turner: On the whole job? Certainly not. If you will let us cross-examine one of these men, we will show you our theory.

Commissioner Geiger: I beg pardon; go ahead.

By Mr. Huffman:

Q. Table Number 5 as set forth on Page Number 9 of your Exhibit shows the cost per foot of hauling and distributing wrought iron and steel pipe at Columbus as of the date certain, does it not?

A. Yes, sir.

Q. Will you please give what explanation you think necessary for a proper understanding of this table?

A. That is the cost distributed based upon a cost per ton of $2.00. The table indicates the weight for the different sizes of pipe, and the hauling cost would be at the rate

3761

[fol. 1172] of $2.00 per ton for hauling and distributing of the pipe.

Q. What is your cost of distribution as included here per ton?

A. $2.00.

Q. Is that in your opinion a fair and reasonable allowance?

A. Yes, sir.

Q. For that sort of work?

A. Yes, sir.

Q. What is the total cost per foot of hauling and distributing as set forth here for six inch pipe?

A. 19.4 cents for the threaded pipe and 19 cents even for the plain end pipe—pardon me—that is 1.94 cents for the threaded pipe and 1.9 for the plain end pipe.

Q. Yes; and for the 20 inch pipe?

A. 8.21 cents.

Q. For the 20 inch?

A. No. 9.14 cents.

Q. Yes, 9.14 cents?

A. Yes, sir.

Q. And for the plain end; that is the one you have just given referred to the plain end?

A. Yes, sir.

Q. You have not given one for the threaded under 16, 18 and 20; why is that?

A. No, sir.

Q. Well, why is that?

(No response.)

By Commissioner Geiger:

Q. Your figures in Column 3, and your figures in Column 5 have a decimal point in a different place. Does that show that much cents, the others in dollars; is that right?

A. No, sir. The column 3 is the weight in pounds per foot of plain end pipe. Column 5 has a dollar sign in front of it, or should have.

By Mr. Huffman:

Q. Those first two columns deal only with weights and the last two are expressed in dollars and cents?

A. Cost in dollars, yes, sir.

By Mr. Turner:

Q. The last two in dollars?

A. Yes, sir.

3762

[fol. 1173] By Mr. Huffman:

Q. They are actually in cents, are they not?

A. No, sir, they are dollars.

Q. It is figured on a dollar basis?

A. Yes, sir.

Q. On Page Number 10 you have set forth what you have designated as Table Number 6, which includes the cost of hauling, distributing, trenching, laying and jointing threaded steal and wrought iron gas pipe at Columbus as of the date certain, I take it; is that correct?

A. Yes, sir.

Q. Will you please explain that exhibit so that anyone can understand it?

A. Well, taking the one inch pipe which happens to be the first size of pipe, the first column shows the nominal diameter of the pipe; the second column under W. is the width of the trench in feet; the third column under D is the depth of the trench in feet. The fourth column under area shows the total area excavation in square feet. The fifth column under cost is the cost of excavating in dollars. The next column laying and jointing at $8.00 per ton is the cost of handling one foot of the one inch pipe in making up the joints. The next column entitled "Hauling and Distribution at $2.00" represents the cost as brought forward from Page 9. The total joining then in the last column, in this case 0.119 dollars, is the sum of the cost of laying and jointing, hauling and distributing. The next to the last column entitled "Miscellaneous at five per cent." are the miscellaneous cost to be added to the total.

Q. Is that a miscellaneous on five per cent. on labor only?

A. Yes, sir.

Q. And that is anal-yous to the previous five per cent. allowance to which you referred in connection with the ex-
3763
[fol. 1174] planation as to cast iron pipe?

A. Yes, sir. The last column shows the summary of the several costs for each size of pipe indicated.

Q. What would be the total cost of hauling, distributing, trenching, laying and jointing wrought iron and steel pipe for an eight inch pipe?

A. 46.9 cents.

Q. And for a ton?

A. 54.7 cents.

Q. For a 12?

A. 64.5 cents.

Q. And your unit of excavation is the same as that used in table 1?

A. Yes. I have computed that at the bottom of Page 10.

Q. Tell us how you made that computation?

A. I have taken the days performance in terms of cubic feet; the cost that goes to digging the trench and back filling, tools, is indicated, which I find to be $298.40 for 6,075 cubic feet, or a unit cost of 4.43 cents per cubic foot. To this I have added superintendence at seven per cent. or .31 cents, making a total cost per cubic foot of 4.74 cents.

Q. Why have you included a superintendence percentage there, Mr. Burgess?

A. The costs that I have above that do not have superintendence included in them, and I have taken the rate at 7 per cent. The total rate is Table Number 1 is about six per cent., but I feel that seven per cent. is fair to distribute in the excavation.

Q. You have assumed a little higher percentage?

A. Yes, sir.

Q. And you have assumed the same set-up for your gang and performance for the hauling, distributing, trenching, laying and jointing of steel and wrought iron pipe that you
3764
[fol. 1175] have for cast iron; is that correct?

A. On the trenching and back-filling, yes sir.

Q. There is a considerable difference in the material figure for joints, however, isn't there?

A. Of course, I haven't included the joint material under the wrought iron and steel pipe.

Q. For the wrought iron and steel, there is no necessity for jointing material figures which you have used for cast iron?

A. No lead and hemp used.

Q. On Page Number 11, you have set up what you have designated as Table Number 7, you may discuss that table and explain to us just what you have included?

A. That is similar to Table Number 6 except that this is plain end pipe with Dresser couplings. I have taken a different cost for laying and joining the pipes; everything else is the same as in Table Number 6.

Q. Your first column there is taken from Table Number 6?

A. Yes, that is correct.

Q. And the second column from Table Number 5—That is the first column; I refer to the first column as the one designated hauling and distributing; that is taken from Number 6. The second column as trench and backfill. I have disregarded the nominal diameter of pipe designation?

A. No. As I said before, it is table Number 6, the only change is being in the laying and jointing.

Q. And what do you arrive at for laying and jointing as a total?

A. What sized pipe?

Q. For six inch?

A. 35½ cents.

Q. Now, that includes a percentage overhead for mis- 3765

[fol. 1176] cellaneous, insurance and other items?

A. Five per cent. Yes, sir.

Q. And that is figured on the labor cost?

A. Yes, sir.

Q. Or the material which?

A. Labor.

Q. This is on labor; and your total for the eight inch with those included is how much?

A. 43.9 cents.

Q. And for the ten inch?

A. 50.8 cents.

Q. And for the 12?

A. 59.6 cents.

Q. Those are total costs per lineal foot?

A. Yes, sir.

Q. Mr. Burgess, have you had experience in your work as a contractor with the use of machines for excavation work?

A. Yes, sir.

Q. What would represent the cost of a trenching machine which in your opinion should be used in a task of this sort?

A. $7,500.00.

Q. Is that a comparatively large or a small machine?

A. Not real small, and it is not large. It is the proper size for this class of work.

Q. What width trench will it cut?

A. 42 inch.

Q. Is that the maximum?

A. Yes, sir.

Q. Are you familiar with what is known as the Cleveland baby digger?

A. Yes, sir.

Q. Is that a large or small machine?

A. Small.

Q. What width trench will it cut maximum?

A. 23½ inches, I think.

Q. Do you know the cost of that machine?

A. Yes, sir.

Q. How much is it?

A. I was given a price this year $5,250 less five per cent, and ten days' cash.

Q. What is the weight of that machine?

A. Four tons.

Q. What is the weight of the machine which you would use?

3766

[fol. 1177] A. Approximately eight tons. I don't have that offhand.

Q. Would it be practical in this construction to use a small machine?

A. Some of the work, yes.

Q. Would you have both kinds of machines?

A. I can answer your other question correctly. The shipping weight of this machine that I would use is 14,500 pounds.

Q. Would it be practical to use both kinds of machine, both large and small machines, in the laying of the mains of the Columbus Gas & Fuel Company?

A. Yes, sir.

Q. Would you confine your construction work to one machine or the other?

A. I would personally buy the heavy machine.

Q. Why?

A. You can get more for your money.

Q. Well, is there any difference in the amount that it might cost you to maintain it and the performance which you would get out of it?

A. Yes, sir, there is, a decided difference.

Q. In favor of which machine?

A. The heavy machine.

Q. Then in your opinion it would be more economical to use the larger machine on this sort of work?

A. Yes, sir.

Q. And you have on Page 12 of this exhibit included the cost of the larger machine in your set-up?

A. I included the cost of the size of machine that I would use.

Q. And that is the one that cut the maximum of 42 inches?

A. Yes, sir.

Q. What kind of a tamper and back filler would your work require?

A. I would use this machine gotten out by the Cleveland Trencher Company in buying a tamper and back filler.

Q. What would be the cost of that machine?

A. I don't know exactly. I believe it is around $3,000.00.

3767

[fol. 1178] Q. So that your total cost of a machine including the tamper and back filler would be about 10,500 dollars?

A. Yes, sir.

Q. How many machines would you use in this work?

A. Well, that again depends on the weather. It would take at least two and possibly three.

Q. You would have about the same number of gangs then for machine cost that you would have for hand work?

A. Yes, sir.

Q. And what do you figure as the fair period that should be allowed for the life of the machine?

A. Five years.

Q. That would give you an annual depreciation prorated over the five years of how much?

A. 20 per cent, 2,100.00.

Q. And you would figure an annual interest on your investment——

Commissioner Geiger: Don't you think that is all set up there?

Q. On this sort of a machine?

A. Yes, sir.

Q. Do you think that should be included?

A. Yes, sir.

Q. And you would also include a maintenance charge?

A. Yes, sir.

Q. What amount for maintenance?

A. $525.00 a year.

Q. And in your experience as a contractor in the use of machines of this sort, have you found that to be a proper allowance?

A. That is a reasonable allowance in my opinion, yes, sir.

Q. Well, you have actually operated one of these machines; haven't you?

A. Not exactly of this type. I have operated trenching machines.

3768

[fol. 1179] Q. Does your company own——

A. We have owned two trenching machines. We sold one.

Q. When did you have these machines?

A. One of the machines that we sold is now laying a 24 inch cast iron pipe line.

Q. Where?

A. Springfield, Missouri.

Q. What do you include then for your total daily fixed and maintenance charge, annually?

A. Daily or annually?

Q. Annually.

A. $3,255.00.

Q. Then you reduce that to a daily basis?

A. Yes, sir.

Q. Do you figure that 200 working days is a proper number of days which you would be working?

A. Columbus, yes, sir. That is a fair estimate.

Q. Using 200 working days, you arrive at how much per day for the daily cost of a machine?

A. $16.28.

Q. It is necessary to use gasoline and oil in connection with it?

A. Yes, sir.

Q. How much have you included for that?

A. $10.00.

Q. The total daily cost of your machine then, Mr. Burgess, would amount to how much?

A. On the machine itself, is $26.28.

Q. Now, it would be necessary to have a gang set-up here for the operation of this machine?

A. Yes, sir.

Q. Tell us what your gang would include and how you would proceed to organize such a gang?

A. One trench machine operator; he would need a helper; tampers and back filler operator, with two helpers, and then additional labor for cleaning up along the ditch. There are four of those. Two watchmen and one water boy. Then I have one foreman and one-half of superintedent's time.

Q. Are you familiar with a proper wage allowance for 3769

[fol. 1180] work of this sort as of December 31, 1929?

A. Yes, sir.

Q. You have employed this kind of labor, have you not?

A. Yes, sir.

Q. And the unit which you have included here, namely $10.00 for a trench operator and so forth as set forth is in your opinion a fair and proper inclusion for that purpose?

A. Yes, sir. You can hire them cheaper, but as a rule, they are not the kind of men you want. They can ruin a machine like this very easily.

Q. What superintendence would be required for this work.

A. You would need one foreman, and then one-half of the general superintendent's time would be in this, and the other half would be on the handling of pipe, back filling and so forth.

Q. You would include a daily took cost?

A. Yes, sir.

Q. How much?

A. $4.00.

Q. Would that in your judgment from your experience be adequate to cover the expenses?

A. Yes, sir.

Q. You would use one truck?

A. The same truck as on hand labor.

Q. About the same size as you would use as previously explained in your hand labor gang?

A. Yes, sir.

Q. Then proceeding with your discusssion, on Page 13, you have set up the daily cost of the machine gang for trenching and back filling by way of summary?

A. Yes, sir.

Q. And your daily cost of machine would be $26.28; your labor is brought over from the previous page at $51.20; your superintendence, truck and tools included would give a daily cost of the machine gang for trenching and backfilling of how much?

3770

[fol. 1181] A. $105.48.

Q. Well, based upon your experience in trenching work as a contractor, is that a fair, reasonable allowance for this work?

A. Yes, sir.

Q. On Page 13, under the designation table 8, you have set up an average daily performance for the use of these machines and the cost per foot. Will you please explain that table?

A. That table shows first the nominal diameter of the pipe; then under the caption of trench shows the width of the trench in inches——

Commissioner Geiger: I think we can see that without repetition. What page does it correspond with in your manual labor?

The Witness: Well, as far as it would correspond with anywhere, it is under Table Number 1.

By Mr. Huffman:

Q. Which page?

A. Well, that goes through on several pages.

Q. You would have to pick out the corresponding pages to find the corresponding——

A. Yes, sir.

Commissioner Geiger: All right, go ahead. Pardon me for interrupting.

Q. Then you have set forth under Table 8, your daily performance with machines per lineal foot?

A. Yes, sir.

Q. And the cost per lineal foot accordingly?

A. Yes, sir.

Q. Page 14 contains Table Number 9, which gives a complete cost, does it not, of hauling, distributing, machine trenching and hand laying and jointing of steel and wrought iron pipe at Columbus?

A. Yes, sir.

3771

[fol. 1182] Q. Under trenching and backfilling, how much have you figured for the cost of the six inch pipe?

A. 11.7 cents.

Q. And that second column was brought forward from Column Number 8?

A. Table Number 8 on Page 13.

Q. Then in this table, you have brought forth also the hauling and distributing costs?

A. Yes, sir.

Q. What page does that come from?

A. Page 9, table Number 5.

Q. You have included laying and jointing here so much per lineal foot; from what page and table does that column come?

A. Table 6 on Page 10.

Q. And in the next column there, you have the total for the figures as shown in the three columns just to the left of that?

A. Yes, sir.

Q. And your miscellaneous or overhead figure of five per cent. has been brought forward from the various previous pages where you have used that allowance?

A. The same five per cent., yes, sir.

Q. What now is your total cost of trenching and laying per lineal foot by machine of six inch pipe?

A. 22.4 cents.

Q. How does that compare with the hand labor cost if you have figured it?

Mr. Turner: If that is not cross-examination I don't know what it is. It is all shown there in the exhibit, isn't it, and he has stated it.

By Commissioner Geiger:

Q. Is your Table Number 9, the table in which there is machine used that corresponds to your Table Number 6 on Page 10, where it is all hand labor?

A. Yes, sir.

3772

[fol. 1183] Q. All you need to do then to find the difference in the cost is to take the diameter of the pipe as found in Table Number 9 and turn to Page 10, Table Number 6, and compare it with a like diameter?

A. Yes, sir.

By Mr. Huffman:

Q. Mr. Burgess, you had completed your explanation relative to where the comparisons as between the cost of machine work and hand work might be found in your Exhibit?

A. Yes, sir.

Q. Now, in preparing your estimated cost of laying these mains and your set-up of performance and costs, were you acquainted with the set-up as used by the Columbus Gas & Fuel Company in this case?

A. No, sir, not until after this work was completed.

Q. And were you acquainted with the set-up for these matters as used by Mr. Allensworth, the City Engineer?

A. No, sir.

Q. About how much work in dollars in round figures have you bid as a contractor in the last two years?

A. Oh, around a million dollars worth of work.

Q. And could you as a practical contractor——

A. Pardon me, it is considerably more than a million, as I think it over; probably a million and a half.

Q. In round figures, it will figure in your opinion around a million and a half?

A. Yes, sir.

Q. Well, could you as a practical contractor have done this work of laying the mains of this company at the labor rate which you have used under your performance set-up and overhead allowances as of December 31, 1929, at a profit to your organization?

A. Yes, sir.

3773

[fol. 1184] By Commissioner Geiger:

Q. Now, you haven't figure- in any profit. We don't care to know just what your per cent. of profit would be, but would these figures taken and carried out into the entire contract produce you as the contractor who laid the pipe a proper profit?

A. Yes, sir.

Q. Would there be a per cent. to overhead in this for profits, too?

A. No, sir.

By Mr. Huffman:

Q. You could have made a profit out of this set-up?

A. Yes, sir.

Q. Does the type of work ordinarily done by you involve work of the construction here required?

A. It has some in it; what percentage, I can't tell you exactly. I haven't figured that.

Q. If you had an opportunity to bid on a job of this nature, that is, the installation of mains and services on a job of this size in the City of Columbus, would it under the circumstances have been an attractive proposition in your organization.

A. Yes, sir.

Mr. Huffman: I think that is all for this witness.

By Commissioner Geiger:

Q. Let me ask you just one question. Could you for the information of the Commission figure up what you would put a bid in for to do this work, finding out the quantity of work from the inventories that have been submitted; could you tell us what as a contractor you would bid to do the whole work?

A. You mean in other words to take my unit quantities, my unit prices, and apply them to the lineal feet, is that what you mean?

Q. Oh, well, that can be done; but we are going to take it on this proposition, that we are going to offer this job
3774
[fol. 1185] as a whole and you are putting in a bid; could you figure what your bid would be?

A. Only by applying my unit prices to the total quantities.

Q. All right; any way you want to figure on it. Could you do that without a great deal of trouble?

A. Yes, sir. I couldn't do it here now, of course. I would have to take these prices—there is one question that comes into this thing that hasn't been mentioned, is the amount of trenching to be done by machine.

Q. What per cent. do you figure should be done by machine in the City of Columbus?

A. I had in mind in making my set-up, I was informed that only about five per cent. of the work actually had been done by machine, and I had that in mind in making my set-up. In other words, what I have included in my machine work is machine work in outlying territory, and as you come in from the outlying territory, of course, your machine work performance decreases, and I have made no study of it.

Q. Well, I believe if I recall it correctly from memory that the engineers for the company testified that the limit of machine work in the City of Columbus would be about 25 per cent. of the entire amount; am I right about that?

Mr. Turner: Yes, you are right.

Mr. Huffman: That is correct.

Q. Now, do you or do you not think that is a correct proportion of the entire job that could under the circumstances that exist in Columbus be done by machine, or would there be a greater or less amount in your judgment?

A. Well, as a contractor, I would't take anybody's statement; I would investigate it myself. I always have. In
3775
[fol. 1186] any work that we have figured, we have never tried to find out the engineer's estimate; we don't want to know what it is. We make our own estimate.

Q. Well, putting it another way, have you experience enough and knowledge enough of the City of Columbus to tell us what in your judgment would be the proper proportion of this work to estimate to be done by machine?

A. That would take considerable study. I can't answer without making a preliminary observation on the ground to see where a machine could be used.

Q. You are not familiar enough with Columbus to know that?

A. No, sir, I wouldn't attempt to answer that.

Q. Well, have you in recent years done contracting work in territory similar to this from which you could judge as to what a proper amount of machine work would be?

A. No, sir.

Q. Here is the trouble. Of course, nobody has ever reproduced a system complete like this one, that is never done. You add parts to it from time to time, but you never go in and build a complete job like this.

Q. Well, have you done a job which amounted in the whole to $500,000.00; one job?

A. Not on this class of work, no sir. We have handled that amount of work, but not on this class of work.

Q. You are unable to say what the proper amount of machine work would be?

A. No, sir, I can't tell you.

By Commissioner Bricker:

Q. Your estimate is based then entirely upon what you were advised of the expense of the company in the actual construction of the system?

A. Yes, sir, by per cent.

3781

[fol. 1187] Q. Is that merely a guess?

A. No, sir, it is not.

Q. Why do you say ten per cent. lower?

A. Because of my understanding of the character of the performance required.

Q. Where have you laid gas pipe?

A. Gas pipe? Up and down the street, no where.

Q. Do you in your set-up here contemplate starting and finishing on the same day?

A. You mean to do three years' work in one day?

Q. Yes.

A. No, sir.

Q. When do you contemplate starting?

A. December 31st, 1929.

Q. And finishing?
A. From three to three and a half years afterwards.

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[fol. 1188] COLLOQUY

Mr. Huffman: We offer at this time, if the Commission please, City Exhibits 55 to 68 inclusive.

Commissioner Geiger: 55 to 68 inclusive?

Mr. Huffman: Yes, sir; inclusive.

Commissioner Geiger: All right, they will be admitted.

Mr. Turner: Let our objection appear to each one of them. We will not argue it. We have already called attention to some of them as we went along.

Commissioner Geiger: I think we will admit them all, Mr. Turner.

Mr. Turner: Note an exception as to each one separately.

And thereupon the documents and exhibits last above referred to are admitted in evidence on behalf of the city of Columbus and are herewith submitted and marked respectively City Exhibits 55 to 68 both inclusive.

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[fol. 1189] Commissioner Geiger: We will pioneer it that way absolutely, we will get this case going and not be unjustly blamed for delay.

Mr. Turner: You should not bark at us about delay.

Commissioner Geiger: We have been the people that have

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been unjustly criticized in the public print.

Mr. Turner: Well, direct your remarks to the ones that have delayed it then; not to us.

Commissioner Geiger: Well, we are going to push it as hard as we can.

Mr. Turner: I am for that, if you will do it.

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[fol. 1190] Mr. Huffman: Our only answer is, if you cannot allocate at all, we cannot allocate in two weeks.

4213

[fol. 1191] Mr. Turner: The engineers are gone, aren't they?

Commissioner Geiger: Call them back. You see, Mr. Turner, this is a thing that the Commission has no par-

ticular feeling on and yet it has happened, that no later than Friday morning an influential local paper in an editorial blamed this whole delay upon the Commission. Anyone that has been familiar with the case knows that that is not fair. It is not substantiated by any facts. It has been a tremendously big case, and both sides have labored diligently to present their views of it to the Commission. It involves a tremendous lot of examination and testimony, and we appreciate the fact that each side has gone forward as rapidly as possible. Nevertheless it does not relieve us of the proposition that we are getting blamed for the delay. We want to go along as fast as we can, not that we are blamed, but because of the appeal you make. If you are entitled to a better rate you should have it quickly, we think.

Mr. Turner: So do we. We want to do it in an orderly way under the laws of the State of Ohio, and that is all we ask for.

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[fol. 1192] Mr. Turner: Before you start with Mr. Blundon I desire to call the Commission's attention, and ask to have it made a part of the record, to what has been marked as Company Exhibit No. 159; it is an editorial from The Ohio State Journal; it is clearly an obstruction of justice.

I realize that perhaps there is nothing to be done in an active way by the Commission, but if there is one thing that seems to me to be necessarily fundamental and fundamentally necessary in our form of government, it is to have matters such as this, where the rights of parties are involved, decided by a tribunal which is uninfluenced by any popular clamor of any kind. For a newspaper to attempt to adjudicate a matter for the Commission or for a Court, is certainly beyond the pale of newspaper ethics,—beyond the pale of decency.

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[fol. 1193] Here is a matter that goes into an exhibit that was submitted during the day yesterday. The editor—and knowing something about the editorial practices of the Journal—a little bit—I know that editorials are written in the day time. He must have had access to the exhibit before even it was here.

It attempts to decide, for this Commission, this case. It does not go into the facts, that the particular exhibit intro-

duced yesterday was introduced under a pretext of correcting only the question of—or a mistake or whatever you may call it—in the loss of gas for the year 1929; it does not point out that the theory of the former exhibit was entirely abandoned; it does not point out that other evidence here of people who know something about the gas business, is to the contrary. But it anticipates the evidence that is coming on today.

I desire to have it made a part of the record in this case.

Mr. Davies: We certainly object, if the Commission please, to the introduction of that editorial. We fail to see that it has anything whatever to do with this case.

We have no control over newspapers and their editorials; it does not pertain to an adjudication of this case. As I glanced over it this morning—I have not read it carefully, but as I glanced over it this morning, it is simply a comment on some of the testimony that was offered yesterday. And if we are going to open up this case for all comments that newspapers may make, there will be no end of our record.

And, so far as the insinuation is concerned, suggesting

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[fol. 1194] that that exhibit had been in the hands of the editorial department of the Journal or of any other newspare or any other person, I want to emphatically deny it and say here that the first time that was presented to anybody was in this hearing room yesterday, and not at any other time or to any other person.

We certainly object to opening up this case to that sort of a record.

Mr. Turner: We simply want to show the atmosphere in which the case is being tried.

Commissioner Geiger: It is an unusual bit of evidence offered during the trial of a case. Would you be able to point out, General Turner, just to what particular issue of this case it may be addressed?

Mr. Turner: It is addressed to the ultimate issue of the case.

Mr. Davies: Oh, no.

Mr. Turner: Oh, yes.

Mr. Davies: Oh, no.

Mr. Turner: Oh, yes.

Mr. Davies: It is simply a comment on testimony offered yesterday.

Mr. Turner: The ultimate issue of the case. This Commission, on another occasion, expressed some—I don't know how to characterize it—but referred—I will put it that way—referred to an editorial in this same newspaper commenting upon the Commission's action, and the Commission was plainly—or at least I plainly took it from the statement—affected by the charge made in the newspaper,

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[fol. 1195] in this same column.

Mr. Davies: And should that be a part of the evidence in this case?

Mr. Turner: It is showing the atmosphere in which we are trying this case.

Commissioner Geiger: I am just trying to visualize, in the ordinary trial of a lawsuit, where a newspaper comment or statement of facts that may have been written by a reporter becomes competent evidence?

Mr. Turner: Your Honor is mistaking me then. I am not offering what was written by a reporter at all.

Commissioner Geiger: No, but I say——

Mr. Turner: The reporter showed up here along about five o'clock last night—a nice boy; I like him; he is a fine fellow; I am not kicking on his stories at all; the news stories are not the things that decide these cases. The things that appeal in news, you will quite agree with me, I think—everybody that knows anything about the trial of lawsuits will agree that the things that make for news are not necessarily the things that are decisive of the case. This is an editorial.

Mr. Davies: Who is going to decide this case? Are we to assume that this Commission is to be influenced by an editorial comment of that kind?

Mr. Turner: I hope not.

Mr. Davis: Well, I hope not. Then what business has it in this case?

Mr. Turner: To show the atmosphere.

Mr. Davies: The public is not deciding the case; it is

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[fol. 1196] this Commission that is deciding it.

Mr. Turner: Mr. Davies, you are absolutely right and that is the basis of offering it.

Mr. Davies: And that is the reason why I object to it. If is absolutely immaterial, incompetent and irrelevant.

Mr. Huffman: It is an attack on the freedom of the press.

Mr. Turner: Freedom and license are two different things. Nobody is more for the freedom of the press than I am.

Mr. Huffman: The editorial writer has just as much freedom as the reporter.

Commissioner Geiger: The Commission is quite interested in an offer of this sort of an exhibit, but we are unanimously of the opinion that it has no place in the record as competent evidence on any issue that is before the Commission, nor has it any place in the record to show any attempted influence, if there be such—and, of course, I have not seen it—on the action of the Commission. It clearly, we think, is not competent, General.

Mr. Turner: May I save an exception.

Commissioner Geiger: Yes.

Mr. Turner: It is offered.

5904

[fol. 1197] Mr. KELLOGG testified as follows:

Q. State your name, please?

A. W. A. Kellogg.

Q. By whom are you employed?

A. The City of Columbus, in the Department of Water.

Q. How long have you been with the city department of water?

A. 27 years.

Q. What position do you hold with the city department of water?

A. General foreman.

Q. How many years have you been general foreman?

A. 21 years.

Q. Will you state your duties, please?

A. It consists of all the outside construction work.

Q. That is, the superintendency of all the outside construction work?

A. Sir?

Q. You have the superintendency of all outside construction work?

A. Yes, sir.

Q. It is your duty to hire and fire or lay off employees?
A. Yes, sir.

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[fol. 1198] Q. With the City Water Works Department?
A. Yes, sir.
Q. How many miles of city water mains have been laid under your supervision, approximately?

Mr. Turner: Let an objection, overruled and exception to to each of these questions.
Commissioner Geiger: Yes.

Q. You may answer.
A. In the neighborhood of 325 miles.
Q. That is exclusive of service lines, I presume?
A. Yes, sir.
Q. That is water mains?
A. Yes, sir, meter lines.

[fols. 1199 & 1200] Valuation and Operating expenses

The Ohio Fuel Gas Company

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[fol. 1201] Morning Session, Thursday,
January 8th, 1931.

And thereupon the further hearing of this matter was resumed pursuant to adjournment before Hons. Frank W. Geiger, Chairman, and John W. Bricker, Public Utilities Commissioners.

Appearances:

Same parties by their respective counsel as at former sessions.

Chairman Geiger: All right, Gentlemen, you may proceed.

Mr. Turner: If the Commission please, in conformity with the holding of this Commission made in the Dayton case, which reads as follows: "The order of the Commission will therefore be that the Company produce all the evidence available touching the cost of producing or ac-

quiring and transmitting the gas to the several gateways and of the fairness of the gateway rate of 45 cents," we are now prepared to offer evidence, all of the evidence available to us, on that subject, and have called Mr. Seyffert as the Treasurer of The Ohio Fuel Gas Company. I do not know whether it is necessary to swear him again or not.

Chairman Geiger: No, I think it will last over.

Mr. Turner: It might last, but it is a different connection and I did not want any question raised about it.

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[fol. 1202] And also—

L. A. SEYFFERT, recalled as a witness, having been heretofore duly sworn, testifies as follows:

Examined by Mr. Turner:

Q. Mr. Seyffert, your name is L. A. Seyffert, and you hold what position with The Ohio Fuel Gas Company?

A. I am treasurer.

Q. You were served with a subpœna directing you to bring certain data from the books of The Ohio Fuel Gas Company, were you not?

A. I was.

Q. Have you brought this information?

A. I have.

Q. Mr. Seyffert, what was the total gas sold at retail by The Ohio Fuel Gas Company for the year ended June 30th, 1930, giving the amount sold, the total revenue and the revenue per thousand cubic feet?

A. The gas sold was 25,271,151,000 cubic feet. The revenue was——

Q. Now slowly with these figures.

A, $13,365,941.34 and the average rate per M C. F. was $0.5289.

Mr. Butler: Mr. Turner, will all of these figures be gathered up into an exhibit?

Mr. Turner: Well, I was just going to hand you, Mr. Butler, a copy of all of these figures. Whether we will put them into an exhibit or not we will determine as we go along. I was going to loan you a copy so that you can follow them.

I might say to the Commission from that this memorandum I have handed to the Commission and counsel we are talking about page one and the foot of the first set of columns there.

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[fol. 1203] Q. Referring now to gas sold at wholesale, please state the amount of gas sold at wholesale by The Ohio Fuel Gas Company for the year ended June 30th, 1930, to companies which are not in any way affiliated with The Ohio Fuel Gas Company.

A. The gas sold is 3,057,106,000 cubic feet.

The revenue obtained was $1,389,746.61, and the average rate per M C. F. is $0.4546, per M C. F.

Q. What was the total amount of gas sold and the total revenue received and the revenue per M C. F. of gas sold by The Ohio Fuel Gas Company, for the year ended June 30th, 1930, at retail and at wholesale, to non-affiliated companies?

A. The total gas sold to non-affiliated, both retail and wholesale, is 28,328,265,000 cubic feet, and the revenue received was $14,755,687.95, and the average rate per M C. F. received was $0.5209 per M C. F.

Q. What was the amount of gas sold at wholesale by The Ohio Fuel Gas Company, the amount of revenue received and the rate per M C. F. to companies in any way affiliated with The Ohio Fuel Gas Company for the year ended June 30th, 1930?

A. The total gas sold to wholesale consumers affiliated is 26,790,842,000 cubic feet, and the money received was $12,032,920.81, and the average rate per M C. F. $0.4491.

Q. What was the grand total of all sales by The Ohio Fuel Gas Company for the year ended June 30th, 1930, giving the amount sold, the revenue received and the revenue per M C. F.?

A. The total gas sold was 55,119,107,000 cubic feet, and the revenue received was $26,788,608.76, and the average rate per M C. F. received was $0.4860.

Q. You were asked to bring with you data showing The

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[fol. 1204] Ohio Fuel Gas Company purchases in amount and rate from related companies; what was the amount of gas purchased by The Ohio Fuel Gas Company for the year ended June 30th, 1930, from related companies, the amount paid therefor and the average rate per M C. F.?

A. The amount of gas purchased from affiliated companies was 18,441,819,000 cubic feet. The amount of money paid for that gas was $5,215,341.98, and the average price per M C. F. paid was $0.2828.

Q. You were asked to bring data with reference to gas purchased by The Ohio Fuel Gas Company from non-related companies; what was the amount of gas purchased by The Ohio Fuel Gas Company from non-related companies during the year ended June 30th, 1930, and the amount paid therefor and the average rate per M C. F.?

A. The amount of gas purchased from non-affiliated companies amounts to 16,120,492,000 cubic feet. The amount of money paid for that gas was $2,872,713.91 and the average rate per M C. F. was $0.1782.

Q. What was the amount of total gas purchased for re-sale, the amount paid therefor and the average rate per M C. F.?

A. The total amount of gas purchased for re-sale was 34,561,311,000 cubic feet; the amount of money paid was $8,088,055.89, and the average price paid per M C. F. was $0.2340.

Q. What was the amount of gas purchased expense for the year ended June 30th, 1930, and what did this amount to per M C. F.?

A. The amount paid for gas purchased expense was $98,955.42, which was an average of $0.0029 per M C. F.

Q. What was the total cost of gas purchased at point of delivery to The Ohio Fuel Gas Company?

A. $8,187,011.31.

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[fol. 1205] Q. What was that cost per M C. F.?

A. And the cost per M C. F. was $0.2369.

Q. You were asked to bring with you data showing the capital stock outstanding of certain companies; please state first the amount of capital stock of The Ohio Fuel Gas Company outstanding on June 30th, 1930?

A. The total shares authorized by The Ohio Fuel Gas Company is 1,650,000; issued and outstanding, 1,161,252 shares; it is all common stock; the par value is $50.00, making the amount of capital $58,062,600.00.

Mr. Turner: Now I want to take the group of The Ohio Fuel Gas Company, The Columbus Gas & Fuel Company

and The Federal Gas & Fuel Company first; you will find that on page 4, Gentlemen.

Q. I wish first before leaving The Ohio Fuel Gas Company you would tell me the amount of fixed capital of that company.

A. The fixed capital of The Ohio Fuel Gas Company is $95,843,354.43.

Q. Now what was the income available for amortization, depreciation, dividends and surplus?

A. $9,833,098.70.

Q. Translate that into a per cent.

A. The per cent of income available for amortization, depreciation and dividends and surplus to the fixed capital is 10.26 per cent.

Q. Now give me the outstanding capital stock of The Columbus Gas & Fuel Company, together with its fixed capital, according to its books?

A. The authorized capital of The Columbus Gas & Fuel Company is 30,000 shares of common and 60,000 shares of preferred stock, all of which is outstanding, all of which has a par value of $100.00, thus making the par value of

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[fol. 1206] the common $3,000,000.00 and the par value of the preferred $6,000,000.00. The fixed capital of The Columbus Gas & Fuel Company is $12,919,594.85.

Q. What was the income available for amortization, depreciation, dividends and surplus for that same year for that same company?

A. There was no income; there was a deficit of $712,-369.23.

Q. What rate is that to the fixed capital?

A. That is 5.51 per cent of the fixed capital.

Q. Now I want the same information, if you please, as to The Federal Gas & Fuel Company?

A. The Federal Gas & Fuel Company authorized capital stock is 21,420 shares; the outstanding is 20,000 shares; it is all common stock of a par value of $50.00 per share, making the capital $1,000,000.00.

Q. The fixed capital now?

A. The fixed capital is $1,958,270.24.

Q. What was the income available for amortization, depreciation, surplus and dividends for the year ended June 30th, 1930?

A. There was no income available for those purposes; there was a deficit of $270,258.78.

Q. Translated into a percentage, what was that?

A. And which will be 13.80 per cent of the fixed capital.

Q. Now take those three companies and give me the total fixed capital of the three companies.

A. The total fixed capital of the three companies is $110,721,219.52.

Q. What was the total income available for amortization, depreciation, dividends and surplus of those three companies?

A. $8,850,470.69.

Q. What percentage does that bear to the fixed capital?

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[fol. 1207] A. 7.99 per cent.

Q. Now we have heard the Columbus Group spoken of here in this case; tell the Commission just what companies constitute the Columbus Group?

A. The Ohio Fuel Gas Company, The Northwestern Ohio Natural Gas Company, The Columbus Gas & Fuel Company, The Federal Gas & Fuel Company, The Springfield Gas Company, The Edgewater Gas & Light Company.

Chairman Geiger: Just a moment; you have The Columbus Gas & Fuel repeated.

Mr. Turner: That is because of preferred and common stock, Your Honor.

By Mr. Turner:

Q. Now I do not want to repeat figures for the three companies that we have already covered, but I want you to give the figures for the Northwestern first; its outstanding capital—the amount of its outstanding capital.

Mr. Butler: Mr. Turner, what is the purpose of showing the earnings, for example, of the Northwestern and the Springfield and the Edgewater Companies?

Mr. Turner: The purpose of that was this, Mr. Butler; the gate rate has been attacked; it is up to us then, as I understand the ruling of the Commission, to proceed to

show the fairness of the gate rate and to show also that we have not in any manner, shape or form siphoned any of the profits of this Columbus Gas & Fuel Company out into any other company and it is for that purpose that I am showing not only the two Columbus Companies and their relation to The Ohio Fuel Gas Company, but showing the so-called Columbus Group. It may be further than you want to go. If there is any objection, I am willing to stop, but we felt

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[fol. 1208] that we wanted to exhaust the subject.

Mr. Butler: Well, if the Commission please, we see no purpose at this time; it is hard to get gentlemen started, but when they get started it seems impossible to stop them. Just whether the Northwestern is making money or losing money does not seem to us to be relevant or competent matter; if the Commission wants it, if it is of any weight, simply save us an exception; but this attempt, so earnestly made, to show that this is along the lines demanded by us, of course, is not quite fair. Our policy is a simple one. Here is The Ohio Fuel Gas Company and it can account for its prices and the Commission will determine its fair price as it would in respect to any other company, and when we get into the United the same thing is true. I do not know that we could have said anything that even remotely suggested that the system was siphoning profits into the Northwestern or that the Northwestern had anything to do with it; they may be charging the Northwestern too much and they may be charging the Northwestern too little; that is a local problem and an individual problem; and this attempt now to evade the main question of an accounting, as it were, straight back from Columbus through the Fuel Gas Company and the United to headquarters, cannot be evaded by a lot of figures that bring in a lot of companies with which, as far as we can see, this case has no connection.

Chairman Geiger: Is there an objection? Do you object?

Mr. Butler: We do object, Your Honor.

Chairman Geiger: Well, you are just making the objec-

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[fol. 1209] tion so that the stenographer can get it; we see your point, but we want it in the record. The objection is overruled and the exception noted.

Mr. Butler: Very well, note an exception.

By Mr. Turner:

Q. You may proceed.

Chairman Geiger: Now one suggestion, if I may be permitted. We promised to let you have full headway without interruption; is it availing us anything to read over what you have in here and to which the witness will make reference?

Mr. Turner: I have not introduced it as an exhibit yet.

Chairman Geiger: Suppose you introduce it and go on to something else. Point out to the Commission what the high spots are. If you feel you should introduce it item by item we will listen, but it seems to me we are taking a lot of valuable time with what is already written down here as an exhibit; but you pursue your own course.

Mr. Turner: Thank you. I will.

Chairman Geiger: Go right ahead if you desire.

Mr. Turner: I will.

Mr. Butler: Then without any other objections to this it may be considered to be lodged and overruled?

Mr. Turner: Yes. I will say this, if it were a matter for the City only here and I was not trying to comply with the rulings of this Commission, I would stop right away on your objection because I am not insisting on putting any of this stuff in.

Mr. Butler: Oh, I know.

Mr. Turner: I am trying to comply with the rulings of

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[fol. 1210] the Commission.

Mr. Butler: I know.

Mr. Turner: All right.

Q. Give me the amount of outstanding capital of The Northwestern Ohio Natural Gas Company?

A. The Northwestern has authorized and outstanding fifty-five——

Q. Give me the total amount and shorten it up.

A. Do you mean the dollars?

Q. Yes.

A. $2,775,250.00.

Q. What is its fixed capital?

A. $4,036,228.69.

Q. What income did it have available for amortization, depreciation, dividends and surplus for the year onded June 30th, 1930?

A. $401;210.33.

Q. What percentage was that to the fixed capital?

A. 9.94 per cent.

Q. Now let us take The Springfield Gas Company; just give me the total amount of its outstanding capital stock?

A. $610,000.00.

Q. Its fixed capital?

A. The fixed capital, $1,294,788.01.

Q. Its income available for amortization, depreciation, dividends and surplus?

A. $19,361.75.

Q. What is that in percentage?

A. 1.51 per cent.

Q. To the fixed capital?

A. Yes, sir.

Q. Now give me The Edgewater Gas & Light Company, the amount of outstanding capital stock?

A. The outstanding capital is $28,980.00; the fixed capital, $243,157.51; it shows a deficit of $1,122.33, which is .46 of one per cent of the fixed capital.

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[fol. 1211] Q. Now give me the total fixed capital of those companies constituting the Columbus Group.

A. The total fixed capital of the Columbus Group is $116,295,393.73.

Q. Now the total income available for amortization, depreciation, dividends and surplus for the year ended June 30th, 1930?

A. $9,269,920.44.

Q. What percentage was that to the fixed capital?

A. 7.90 per cent.

Q. All right. You were asked to bring with you a balance sheet of The Ohio Fuel Gas Company as of December 31st, 1929; will you refer to that balance sheet and state—well, I don't want to take the time—just refer to that balance sheet and give me the total assets of The Ohio Fuel Gas Company at December 31st, 1929.

A. The total assets of The Ohio Fuel Gas Company——

Q. According to its books.

A. At December 31st, 1929, according to its books, were $100,705,303.93.

Q. All right; you were asked to produce operating statements of The Ohio Fuel Gas Company for three years preceding December 31st, 1929; have you produced them?

A. I have.

Mr. Turner: I want to shorten this up, if the Commission please.

Q. I just want to get totals now. Give me the total amount of gas sold at retail, the amount received therefor, for the years 1927, 1928 and 1929?

A. In 1927 we sold at retail——

Q. That is page 6.

A. 9,471,368,000 cubic feet.

Q. And the amount?

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[fol. 1212] A. And received for that $4,832,046.09.

In 1928 we sold at retail 14,491,735,000 cubic feet and received $7,123,275.03.

In the year 1929 we sold at retail 25,464,269,000 cubic feet and received $13,331,820.38.

Q. Now, in respect of the 1929 figures, what do they include, as to the Logan Gas Company and the Pittsfield; tell us about that so we will have it once for all.

A. The Logan Gas Company was acquired by The Ohio Fuel Gas Company on June 1st, 1929, and we have therefore included in these sales of The Ohio Fuel Gas Company the sales for the first five months of 1929 so as to make a complete year—sales and expenses, covering the property of the combined companies.

Q. In other words, you added the Logan in?

A. Yes, sir.

Q. And the Pittsfield?

A. And the Pittsfield, yes, sir.

Q. Now give me the total wholesale sales to non-affiliated companies for those same years, 1927, 1928 and 1929.

A. The wholesale sales to non-affiliated companies in 1927 amounted to 51,594,000 cubic feet, and the amount received was $20,663.70.

In 1928 we sold 369,857,000 cubic feet and received therefor $187,616.19.

In 1929 we sold at wholesale to non-affiliations 3,070,246,000 cubic feet and received $1,403,567.09.

Q. Now give me the same figures for the sales at wholesale to affiliations for the so-called Columbus Group?

A. In 1927 we sold to the affiliations in the Columbus

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[fol. 1213] Group 10,989,103,000 cubic feet and received $3,669,462.30.

In 1928 we sold 12,424,465,000 cubic feet and received $4,182,752.51.

In 1929 we sold 13,218,319,000 cubic feet and received $5,168,702.38.

Q. Now give me the same data as to the wholesale sales to other affiliated companies?

A. In 1927 we sold to affiliations other than those in the Columbus Group, 1,364,999,000 cubic feet and received $582,996.94.

In 1928 we sold 7,839,240,000 cubic feet and received $3,425,720.56.

In 1929 we sold 13,386,370,000 cubic feet and received $5,975,898.80.

Q. Now give me the same data for the total—showing the total gross operating revenue?

A. The total gross operating revenue for the year 1927 included sales of 21,877,064,000 cubic feet and a revenue of $9,105,169.03.

In the year 1928 we sold 35,125,297,000 cubic feet and received therefor $14,919,364.29.

In 1929 we sold 55,139,204,000 cubic feet and received $25,879,988.65.

Mr. Turner: Now I want to get a picture to the Commission of this amount of gas purchased for re-sale from companies related to The Ohio Fuel Gas Company for each of the years 1927, 1928 and 1929.

Q. Just give the totals first of the Columbus Group, the total amount in cubic feet and the total dollars; that is on page 7.

A. The gas purchased for re-sale from companies in this Columbus Group in the year 1927 amounted to 2,551,284,000

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[fol. 1214] cubic feet, for which we paid $382,897.10.

In the year 1928 we did not purchase any gas from companies in this group.

In 1929 we purchased 965,893,000 cubic feet for which we paid $333,309.05.

Q. Now give me the same data as to other affiliated companies?

A. We purchased gas from other affiliations not in the Columbus Group, in 1927, 2,028,446,000 cubic feet, for which we paid $462,827.31.

In 1928 we purchased 11,458,860,000 cubic feet, for which we paid $2,965,276.84.

In 1929 we purchased 18,256,228,000 cubic feet, for which we paid $5,141,865.87.

Q. Give me your purchases for re-sale from non-affiliated companies for the same years.

A. In the year 1927 we purchased from non-affiliated companies 11,317,733,000 cubic feet for which we paid $1,695,256.70.

In 1928 we purchased 12,207,727,000 cubic feet, for which we paid $1,840,451.36.

In the year 1929 we purchased from non-affiliations 14,397,893,000 cubic feet, for which we paid $2,185,462.52.

Q. Omitting the gas purchased expense, give me the total cost at measuring stations to the Company and the amounts for the same years.

A. The total cost for the year 1927, and the amount of gas purchased, was as follows:

15,892,463,000 cubic feet, for which we paid $2,620,675.40.

In the year 1928 we purchased 23,666,587,000 cubic feet for which we paid $4,874,692.04.

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[fol. 1215] In the year 1929 we purchased 33,620,014,000 cubic feet for which we paid $7,750,515.13.

Q. Now give me the total expenses before taxes, depreciation and amortization for those years.

A. The total expenses before taxes, depreciation and amortization in the year 1927, exclusive of gas purchased, was $2,765,701.69.

In the year 1928 the expenses, exclusive of gas purchased and before taxes, depreciation and amortization, were $4,213,588.25.

The same figure in the year 1929 was $14,557,731.49—let me check that a moment, please; that last total I gave you is wrong. The last total includes gas purchased.

Q. Now just give me the taxes, depreciation and amortization of leaseholds for those three years, separately.

A. I will have to foot that up.

Q. Well, you can state them.
A. In the year 1927 the taxes were $736,252.83.
Q. Go right across.
A. 1928, taxes, $889,042.96. 1929, taxes, $1,525,532.26.
Q. Now give me the depreciation.
A. The depreciation allowance for the year 1927 was $675,070.33.
In the year 1928, $1,236,992.66.
In the year 1929, $1,975,471.92.
Amortization of leaseholds in 1927 was $27,922.97.
In 1928, $42,137.01.
In 1929, $121,928.08.
Q. Now give me the total operating expenses for the years.
A. The total operating expense for each of the three years:

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[fol. 1216] 1927, was $6,825,623.22.
In 1928 was $11,256,452.92.
In 1929 was $18,180,663.75.
Q. What was the operating income available for amortization, dividends and surplus for those three years?
A. For the year 1927 it was $2,279,545.81.
For the year 1928 it was $3,662,911.37.
For the year 1929 it was $7,699,324.90.
Q. Give me the dividends paid by The Ohio Fuel Gas Company during the years 1927, 1928 and 1929?
A. In the year 1927 they paid $2,000,000.00.
1928, they paid $2,000,000.00.
1929, they paid $6,886,886.00.

Mr. Turner: May we have this marked for purposes of identification as Company Exhibit 43?

And thereupon the Document last above referred to was marked for purposes of identification herein as Company Exhibit No. 43.

Q. I hand you what has been marked as Company Exhibit No. 43 and ask you if that was prepared under your direction?
A. It was.
Q. Does that contain the data and other data that you have already testified to here?
A. Yes, sir.

Mr. Turner: Inasmuch as we have tried to shorten this matter, Your Honors, we offer this Company Exhibit No. 43 in evidence.

Mr. Butler: Again, if Your Honors please, I cannot ob-

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[fol. 1217] ject to that as a whole because there are many things in it which I think are competent. I simply remind the Commission that if all of those things are competent there has been opened an accounting which is infinite in its reach.

Mr. Turner: This may be marked as Company Exhibit No. 44. A copy of this Exhibit was furnished counsel on the other side on December 27th, 1930, if Your Honors please.

And thereupon the document last above referred to was marked for purposes of identification herein as Company Exhibit No. 44.

Q. Mr. Seyffert, you were asked to make a cost analysis to The Ohio Fuel Gas Company of gas furnished to The Columbus Gas & Fuel Company as of December 31st, 1929; have you prepared such an exhibit?

A. I have.

Q. I hand you what has been marked as Company Exhibit No. 44 and ask you if that is such exhibit?

A. Yes, sir.

Q. Referring to page 3 of this Exhibit No. 44, please explain the items included in and which make up the item of $19,931,583.00.

(No reply.)

Mr. Turner: I am assuming now, Your Honors, that you will want a little more detail with this than with the other.

Chairman Geiger: Where is your nineteen million dollars?

Mr. Turner: Right about the middle of the page.

Now, if Your Honors please, I want to comply with all of your suggestions so far as we can. We introduce an exhibit here and just put it in without any explanation and

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[fol. 1218] then we have a cross-examination predicated upon it and I don't think that the Commission or attorneys on either side understand anything about it.

The man who is asking the questions knows what he is asking, but with all due respect to the Commission, we do always, and you as a lawyer always prepared your records so that if things went awry before the Court that you happened to be trying it in, why, you can proceed to another Court. And it is my observation—I may be wrong—but while this Commission has an understanding of exhibits and knows how to get at exhibits and get information out of them, I do not believe any court does. I believe that if you put it in the record they can get it, and if you leave it up to them to dig it out of the exhibits they will never get it.

Chairman Geiger: I see. You are trying this case for the other Court?

Mr. Turner: I am trying this case for here and for any other Court that may be needed, and I have no apology for that, If your Honor please.

Chairman Geiger: All right; proceed.

(Question read.)

A. The item of purchased gas expense, amounting to $7,211,528.00, is money expended for gas purchased from others; this includes gas purchased from affiliated companies as well as from companies not affiliated.

The production system expense, amounting to $2,973,502.00, represents the expense incurred in the operation of the Ohio Fuel Gas Company's production system.

The next item, "Non-productive well drilling expense", 832 [fol. 1219] amounts to $618,789.00, and is the actual cost of dry hole drilling in the year 1929 by The Ohio Fuel Gas Company after having given effect to the salvage of the material from such dry holes.

The total of these items amounts to $10,803,809.00, which item, divided by the total deliveries of 53,943,794,000 cubic feet, produces an average of $0.2003 per M. C. F.

The transmission expense, amounting to $1,401,668.00, is the operating and maintenance cost of the transmission lines from the well gates to the city gates and from points at which gas is purchased to the city gates.

These figures do not contain any allowance for replacements and retirements, etc., amortization, taxes or return on the value of the property.

This item divided by the total deliveries produces an average of $0.0260 per M. C. F.

The general administrative expense, amounting to $583,-799.00, represents that portion of the total of such expenses which is applicable to the production and transmission properties. This item produces an average cost of $0.0108 per M. C. F.

The item of Other General Expense, amounting to $272,835.00, is also that portion of the total expenses of that net applicable to the production and transmission properties. Such general expenses include reserve for injuries and damages, insurance, employees group insurance, relief and pensions, etc.

This item produces an average of $0.0051 per M. C. F. of gas delivered.

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[fol. 1220] The annual allowance for replacements, retirements, etc., amounting to $1,420,241.00, is further explained on page 15.

The total amount of depreciable property items contained in the total reproduction cost new less depreciation as shown in exhibits which are not yet numbered amounts to $71,012,-027.00.

Applying to this amount the percent shown on page 15 produces a total of $1,420,241.00, which is two percent of the total value of the items subject to replacement, retirement, etc., included in the rate base.

This item produces an average cost of $0.0263 per M C. F.

The next item is annual allowance for amortization, and amounts to $5,449,221.00. This is further explained on page 17.

Q. Now what does that amount to per M C. F.?

A. That amounts to $0.1010 per M C. F.

Q. Now what do the total operating expenses before taxes and return amount to per M C. F.?

A. This total before taxes and return amounts to $0.3695 per M C. F.

Q. Now explain the item of taxes on page 3.

A. The item of taxes amounts to $2,866,816.00, and covers property, Excise, Public Utilities Commission and Federal Income taxes as computed on page 13, excepting property tax, which is the actual amount paid during the year 1929.

Q. What does that amount to per M C. F.?

A. That amounts to $0.0531 per M C. F.

Q. Now what are the total operating expenses and taxes before return?

A. The operating expense including taxes but before return amounts to $22,798,399.00.

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[fol. 1221] Q. And what does that amount to per M C. F.?

A. And the average cost per M C. F. delivered is $0.4226.

Q. And what is the return at eight percent on that valuation of the property?

A. The return at eight percent amounts to $11,229,186.00, and represents eight percent on a rate base of $140,364,827.00.

Q. And what rate per M C. F. is that?

A. The rate per M C. F. for gas delivered——

Q. No, no——

A. Is $0.2082 applicable to the return.

Q. Per M C. F.?

A. Yes.

Q. Now the total cost of service is how much?

A. The total cost of service is $34,027,585.00, which is an average of $0.6308 per M C. F. delivered.

Q. You have some credits there; just explain briefly those credits.

A. The Northwestern Ohio Natural Gas Company pays to The Ohio Fuel Gas Company a differential for an amount of gas which The Ohio Fuel Gas Company delivers to the Northwestern Ohio Natural Gas Company at Toledo for a like amount of gas which The Northwestern Ohio Natural Gas Company delivers to The Ohio Fuel Gas Company at Sugar Grove. This results in a charge to the Northwestern Ohio Natural Gas Company, of $659,438.00, and credit is given to the production and transmission departments for this amount in this calculation.

Q. That is a trading of gas, in other words?

A. Yes, sir.

Q. Go ahead with the gas used by the company in drilling.

A. Credit is also given these departments, that is, the production and transmission departments, in the amount of $132,128.00, which represents gas used in company drilling and abandoning wells.

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[fol. 1222] Q. Now give me the total net cost of service.

A. The total net cost of service is $33,236,019.00, which results in an average cost of $0.6161 per M C. F.

Q. What were the total deliveries in M C. F. at the city gates?

A. In the year ended December 31st, 1929, they were 53,943,794,000 cubic feet.

Mr. Butler: Mr. Turner, before you leave that page, there are two questions I should like to ask because it will help us.

Mr. Turner: Go ahead.

Mr. Butler: Does that page mean that your gate rate here should be 61 cents instead of 45?

Mr. Turner: Yes; .6161.

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[fol. 1223] Q. My next question I think Mr. Butler developed for me, that it would necessitate a gate rate of $0.6161 per M C. F. at the city gate to give the company an eight per cent. return on its valuation; is that correct?

A. $0.6161, yes, sir.

Q. Now from what source were the figures representing the purchased gas expense, production system expense, nonproductive well drilling expense, transmission system expense, general administrative expense, and other general expenses, obtained?

A. From the books of The Ohio Fuel Gas Company.

Chairman Geiger: Which exhibit are you using?

Mr. Turner: Exhibit 44, Your Honor.

Q. Tell the Commission what is shown in pages 5, 6 and 7 of Exhibit 44?

A. This is a transcript of the valuation summary taken from Ford, Bacon & Davis' valuation, amounting to $97,360,350.00 which sum appears on page 7, and is the reproductive cost less depreciation, to which has been added $43,004,477.00, which is the average of the valuation of leaseholds made by Messrs. A. B. Dally, Jr., S. W. Meals, George Wittmer, Jr., and D. S. Webber & Son, as shown in

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[fol. 1224] detail on pages 19 and 20.

Mr. Buter: You are producing these other witnesses, are you?

Mr. Turner: We are producing the other stuff, yes; we will have it in in just a little bit.

Q. Proceed with your explanation now of pages 9 and 11 of this Exhibit 44?

A. 9 to 11 inclusive; those pages contain details of purchased gas expense, production system expense, non-productive well drilling expense and transmission system expense as they appear on the books of The Ohio Fuel Gas Company. As to general administrative expense and other general expense, these figures show the amount applicable to production and transmission system.

Q. Now turn to page 13 and explain that page.

A. This page shows in detail the method by which the amounts of $1,531,253.00 for Federal Income Tax, and $448,686.00 for Excise Tax, and $17,755.00 for Public Utilities Commission taxes were computed.

Q. What is the source of the figures set out under the head of non-productive well drilling expense?

A. That is our actual expense incurred in the year 1929 for the drilling of dry holes as shown by the books of the company.

Q. Now explain page 15 of Exhibit 44.

Chairman Geiger: Just wait a minute; the Federal Income tax, you are assuming that will continue over a period of some time, I assume; that is what it is now or as of a date certain?

The Witness: That is a computation made on the basis of this analysis.

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[fol. 1225] Chairman Geiger: All right.

The Witness: If we got that earning or return on the rate base then we would have to pay that tax.

Chairman Geiger: Under the present law?

The Witness: Yes, sir.

Chairman Geiger: All right.

The Witness: This page 15 shows the method by which the amount of $1,420,241.00 of annual allowance for replacements, retirements, etc., was determined.

By Mr. Turner:

Q. Now proceed and explain page 17.

A. This page 17 shows in detail the method by which the amount of $5,449,221.00 of annual allowance for amortization was determined.

Q. Now what is shown on pages 19 and 20?

A. This is a statement of the valuations placed on each of the classes of acreage by Messrs. Meals, Dally, Wittmer and Webber, and shows how the value of $43,004,477.00 was arrived at.

Q. What do your books show the cost of the leaseholds?

A. The book cost of leaseholds of The Ohio Fuel Gas Company at December 31st, 1929, is $8,478,281.00.

Q. Now you were asked to produce any valuation that has been made of the property of The Ohio Fuel Gas Company; have you produced that valuation?

A. I have.

Mr. Turner: I would like to have these documents marked Company Exhibits 45 to 56, both inclusive.

And thereupon the documents last above referred to are marked for purposes of identification herein as Company Exhibits Nos. 45 to 56, both inclusive.

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[fol. 1226] Q. I hand you what has been marked as Company Exhibits 45 to 56, inclusive, and ask you to state what they are.

A. They are a valuation of the production and transmission property of The Ohio Fuel Gas Company made by Ford, Bacon & Davis.

Q. As of what date?

A. As of December 31st, 1929.

Q. Now this volume 45 is what?

A. Exhibit No. 45 is Volume No. 1 and is a summary of the valuation.

Q. Are these produced from the records of The Ohio Fuel Gas Company?

A. I don't know just how you mean that.

Q. Were they furnished to The Ohio Fuel Gas Company?

A. They were furnished to The Ohio Fuel Gas Company by Ford, Bacon & Davis, yes, sir.

Q. And brought here by The Ohio Fuel Gas Company?

A. Yes, sir.

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[fol. 1227] By Mr. Turner:

Q. Now, Mr. Seyffert, you were asked by Mr. Butler to produce the United Fuel Gas Company's contract with The Ohio Fuel Gas Company. I don't know—while you pro-

duced that for him, I think, I don't know as it has been identified.

A. I think not.

Q. Have you a copy there that we can identify?

A. Yes, sir.

Mr. Turner: Mark this document for identification as Company Exhibit No. 58.

And thereupon the document last above referred to was marked for purposes of identification herein as Company Exhibit No. 58.

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[fol. 1228] Q. I hand you what has been marked as Company Exhibit No. 58 and ask you to state whether that is the contract under which natural gas was being purchased by The Ohio Fuel Gas Company from the United Fuel Gas Company during the year 1929 and at the present time?

A. It is.

Q. What is the Ohio River Rate paid by The Ohio Fuel Gas Company to the United?

A. 26½ cents per thousand cubic feet.

Mr. Turner: We offer in evidence Company Exhibit No. 58.

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[fol. 1229] Mr. Turner: Now there is just one more exhibit that I want to offer here tonight and then I want to turn this witness over for cross-examination; that is a copy

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of the Hope contract, it is Exhibit No. 59, and it is an exemplified copy, certified by the West Virginia Commission, the members of it and its Chairman, or secretary rather.

Mr. Butler: That is Exhibit 59?

Mr. Turner: Yes. I will give you copies of it. It is between the United and the Hope.

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[fol. 1230] Q. Mr. Seyffert, I hand you what has been marked as Company's Exhibit No. 60, and ask you to state what that is.

A. That is a contract dated October 15th, 1928, between the United Fuel Gas Company, the Hope Natural Gas Com-

pany, the Reserve Gas Company and the Connecting Gas Company.

Q. Is that the so-called winter gas?

A. Yes, sir.

Mr. Turner: We offer in evidence Exhibit No. 60, if the Commission please. That is 653.

Chairman Geiger: It may be admitted.

Q. Now, I hand you what has been marked as Exhibit 61, and ask you to state what that is.

A. This is a contract dated October 1st, 1924, between the Union Natural Gas Corporation and the Logan Gas Company.

Mr. Butler: What number is that? 849?

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[fol. 1231] Mr. Turner: 849, yes.

Q. Is that also winter gas?

A. No, sir, this is the gas which The Ohio Fuel Gas Company now gets and reported as coming from the Columbia Gas & Electric Corporation.

Q. This is reported as coming from the Columbia Gas & Electric Corporation?

A. Yes.

Mr. Butler: When you use the word "reported", you do not mean it does not actually come.

Mr. Turner: I mean this, that the Columbia Gas & Electric Corporation, as I understand, does not mine any gas at all, that this was simply assumed. Mr. Seyffert can explain that.

Chairman Geiger: Well, the Hope contract is not with the Columbia Gas & Electric Company.

Mr. Turner: Sir?

Chairman Geiger: The Hope Company——

Mr. Turner: Oh no, no, the Hope is a Standard Oil Company.

The Witness: That contract referred to as winter gas contract is the gas for which we pay 31 cents in the winter.

Q. And that gas by way of the Connecting Gas Company's line?

A. Through Cedarville, West Virginia, and Covelick, West Virginia, and Sugar Grove, Ohio.

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[fol. 1232] Q. I hand you what has been marked as Exhibit No. 62, and ask you to state what that is.

A. This is a photostatic copy of the Ohio Fuel Gas Company voucher A-551, showing purchase of gas from the Hope Natural Gas Company in the month of January, 1930.

Q. At what price?

A. At 43½ cents.

Q. Where was that delivered?

A. This was delivered to us at Sugar Grove.

Q. How did you happen to need or buy that?

A. The United Fuel Gas Company under this winter gas contract were supposed to give us 12,000,000 feet a day during January and February and March. They notified us in the fall of 1929, that, because of some priority contracts, they probably would not be able to give us the full amount in the year 1930. In the early part of 1930, the weather got very cold, and they were able to give us only about six million feet a day. So it was necessary for us to obtain an additional supply from another source. We got into touch with the Hope Natural Gas Company, and they gave us about six million feet a day there for ten days, or approximately six million feet, to tide us over a bad weather condition here in the State of Ohio. And for that they charged us 43½ cents a thousand.

Mr. Huffman: What date was that again?

The Witness: Several dates in January, 1930.

Chairman Geiger: Was that an additional amount that you purchased from them beyond what your contract with them called for?

The Witness: We had no contract with the Hope directly for any gas. That contract you are looking at there

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[fol. 1233] for the winter gas was with the United Fuel to furnish the gas, and the Hope to carry it through part of its lines. The United Fuel being unable to deliver to the Hope, of course, the Hope was unable to deliver it to us from that source. But the Hope Natural Gas Company had some gas which it got from another source, its own gas, which it sold to us at this price.

Q. The Hope is not a related company?

A. It is not.

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[fol. 1234] Mr. Turner: Now, before cross examination, I would like to offer this Exhibit No. 59, which is certified to as being on file in the Public Service Commission of West Virginia. These constitute the contract between the United Fuel Gas Company and the Hope Natural Gas Company for gas at Ravenswood—not at Ravenswood, but where is it?

The Witness: At Cedarville.

Mr. Turner: Cedarville. I get those two towns mixed up. At Cedarville. Briefly, the situation, as I understand it, is this, and Mr. Seyffert will correct me if I do not get it straight. The Hope and the Ohio Fuel Gas Company get half, each get half of the gas of a 20 inch pipe line owned by the United Fuel, less the United Fuel's domestic customers along the way. In other words, all of the gas that is not domestically used in West Virginia is sold by the United to the Hope and the Ohio Fuel Gas Company.

As I stated once before here, this matter has been before the courts and commission in West Virginia. There was a time when there was a discrimination in price down there. The United Fuel was charging the Hope and another or two other companies at that time, I think, 15 cents a thousand, and for tax purposes or some other purpose of the sort were only charging their own related Ohio Fuel Gas Company seven cents. In rate cases taken to the Commission the Commission held that the United Fuel Gas Company would have to restore to its revenues the difference between the price it was charging the Ohio Fuel Gas Company and the independents, that is, the Hope and the others. That was taken to the Supreme Court of Appeals of the State of West Virginia and affirmed.

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[fol. 1235] In another case, the United went into the Federal Court and tried to get away from that situation, and the Federal Court sustained the contention that the company could not discriminate in favor of one of its subsidiaries or related companies. I have those cases here.

The first case is the case of Re United Fuel Gas Company before the West Virginia Public Service Commission, reported in P. U. R. 1924-A, at 357. That decision was appealed to the West Virginia Supreme Court of Appeals, and the report of the Supreme Court of Appeals is to be found in P. U. R. 1924-B, page 601.

The matter came up again in the case of Re United Fuel Gas Company before the West Virginia Public Service Commission, P. U. R. 1925-B, page 705.

Now following that last decision the gas company applied for an injunction in the United States District Court for the Southern District of West Virginia. That case is reported in P. U. R. 1927-A, page 707.

Now the earliest case reported in which the above principle was announced by the West Virginia Commission was Re United Fuel Gas Company before the West Virginia Public Service Commission, P. U. R. 1920-C, 583.

I have some abstracts here. If the Commission would like I could read them. I do not want to take any unnecessary time.

Chairman Geiger: Probably you can make reference to them in your brief.

Mr. Turner: Yes. There was one thing in my mind, however, and that was the desire to offer them in evidence. Our statute, 15,000 and something, providing for the proof

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[fol. 1236] of the common law of other states, says it is to be proved by the reports. And I would like to have those reports considered as introduced in evidence, if I may.

Mr. Butler: We object to that, if the Commission please. We think it is neither material nor competent. It cannot have any bearing on this. But if the Commission wish, that offer may be held until we have examined into it a little further and read these cases. We are not now talking about the method of proof. The general's word is good enough for that, you understand. But we object to that as evidence.

Mr. Turner: You are not objecting to the form of my proof.

Mr. Butler: No, Mr. Turner, we will take your word for that. If you bring in typewritten copies and say they are all right, all right.

Chairman Geiger: Don't take this down.

Mr. Butler: If the Commission considers them competent and material and proper, we will aid you in getting them into the record any way you want. You can just bring in copies. You don't have to have certified copies.

Chairman Geiger: May we not say they may be introduced into evidence so far as they are to be considered by the Commission by reference to page and volume?

Mr. Butler: Oh, yes.

Chairman Geiger: without the formal introduction of the testimony.

Mr. Turner: Or an abstract as an exhibit, so it don't have to be copied? I mean, instead of taking the book, we will just copy the case.

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[fol. 1237] Chairman Geiger: It is printed somewhere and you can refer to it.

Mr. Turner: Just so I am not hereafter met with the claim that I did not bring it in properly.

Chairman Geiger: You can agree to that among yourselves.

Mr. Butler: Of course, if we live, there will be no such objection. But if we die somebody else may urge it.

Mr. Turner: We offer in evidence exhibit No. 59, which is the contract between the united Fuel Gas Company and the Hope Natural Gas Company for that 50 per cent. of the gas, the other 50 per cent. of which gas comes to The Ohio Fuel Gas Company from the United.

Mr. Butler: And, naturally and consistently, we object to that, because we think it neither material nor competent. We do not believe you can establish the fair value of your property or the fair cost of this gas by showing what you charge somebody else for it.

Mr. Turner: You are not objecting to the form?

Chairman Geiger: Objection overruled and exceptions noted.

Mr. Turner: You are not objecting to the form?

Mr. Butler: Oh no, not at all, Mr. Turner.

Mr. Turner: I at this point call the Commission's attention to the fact that the last contract here provides a sliding scale of prices, by which you will see that there is no discrimination between the two companies. These will be interesting reading as to the reason for——

Mr. Butler: Do they slide up or down?

Mr. Turner: They slide up. That is cancellable at the

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[fol. 1238] end of a year. It is now in force.

And thereupon the paper writing above referred to was offered, introduced and admitted in evidence on behalf of the Columbus Gas & Fuel Company, subject to the objec-

tion of the city of Columbus, and is herewith submitted marked company's Exhibit No. 59, and made a part thereof.

[fol. 1239] Mr. SEYFFERT testified on cross-examination as follows:

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[fol. 1240] Q. Your Ohio Fuel Gas Company purchased nine—or approximately nine and a half billions of cubic feet of gas under the designation of "Other Ohio producers"?

A. Yes, sir.

Q. And the price per thousand cubic feet was 15.57 cents per thousand cubic feet?

A. Yes, sir.

Q. Was that a fair price?

A. Yes, sir.

Chairman Geiger: What did you pay for the gas that you bought from the Columbia Gas & Electric?

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[fol. 1241] The Witness: We paid 35 cents.

Chairman Geiger: And 15 cents for the Ohio Companies?

The Witness: An average of 15.57 cents to Ohio producers.

Mr. Turner: What part of the year was it that you bought the gas from the Columbia at 35 cents, do you know?

The Witness: Well, it is throughout the year, Mr. Turner, graduated, and more in the winter than in the summer.

Chairman Geiger: Well, now, the gas that you purchased in Ohio, was that purchased from affiliated small companies or from independent producers?

The Witness: These to which you refer——

Chairman Geiger: For which you paid them 15 cents?

The Witness: The amount to which he referred is from non-affiliated companies; there is no obligation on the part of those people to give us any prescribed quantity of gas. We go to the well and get it and we transport it; we compress it; and any lack of amount—as you see here, it is tremendous—the difference between the amount we buy from them and the amount we sell, that we go elsewhere to get.

Chairman Geiger: When you buy from the Columbia Gas & Electric and pay 35 cents plus, at what point is the price fixed; at Columbia or at the point of purchase?

The Witness: That is delivered from West Virginia to Sugar Grove, Ohio.

Chairman Geiger: For 35 cents?

The Witness: Yes, sir.

Chairman Geiger: And who owns the pipe lines through which it comes to Sugar Grove?

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[fol. 1242] The Witness: The Connecting Gas Company.

Chairman Geiger: Is that The Ohio Fuel Supply Company?

The Witness: No, sir.

Chairman Geiger: Is it The Columbia Gas & Electric Company?

The Witness: The Columbia Gas & Electric Company owns a half interest in it.

Chairman Geiger: Well, now, from what other companies affiliated with The Columbia Gas & Electric Corporation do you furnish gas?

The Witness: We purchased a large amount from the United Fuel Gas Company.

Chairman Geiger: How much did you pay for that?

The Witness: For that which comes through Ravenswood we pay 26½ cents and during the winter time—during the months of December, January and February we have made arrangements to get gas through another way because of the lack of capacity of this one way; we get 12,000,000 feet a day during those months at the price of 31 cents.

Chairman Geiger: Well, now, what is the cause of the difference in the price between the 15.57 cents plus that you paid to the independent producers and the 26 cents you pay to one affiliated company and 35 cents you pay to The Columbia Gas & Electric; is it because you bought it at points more distant from Columbus or near to Columbus or is it because you have a different guaranty as to supply?

The Witness: Well, it is some of all of those things; it is further from the seat of production; there is more trans-

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[fol. 1243] portation and it is a larger quantity; it is a guarantee of service to the local companies and to The Ohio Fuel Gas Company to continue doing business; whereas the other Ohio producers have no obligation whatever to continue; they drill a well; they are through when they drag the gas to the top of the ground and have no obligation to

get additional acreage to hold that reserve or to expand in any way. It is just a sort of a by-product that we pick up as we can.

Chairman Geiger: In other words, you feel that the gas that you buy from a responsible producer who has back of it capital sufficient to insure you a constant supply is more valuable to you and would justify a greater price than the gas that is produced by a small independent company that may fail you when you need it?

The Witness: That is absolutely right.

Mr. Turner: In that case, may I ask a question, Your Honor—if the independent producers maintain any gathering lines or any compressor stations?

The Witness: They do not.

Mr. Turner: Or pay the expense of taking the gas away from the well?

The Witness: They do not.

Chairman Geiger: The price you pay them is the price at the mouth of the well?

The Witness: That is right.

Chairman Geiger: The price you pay the other subsidiaries from whom you purchase at a higher price is for delivery of gas to what point?

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[fol. 1244] The Witness: Part of it is delivered to Sugar Grove and part to Ravenswood but it has been collected by the other company and transported and compressed and all of those elements added to it before it is delivered to us.

Chairman Geiger: Where is Ravenswood?

The Witness: It is just across the Ohio River a little north of Point Pleasant or Gallipolis and Pomeroy.

Chairman Geiger: You transport it from that point then in Ohio Fuel Gas lines?

The Witness: Yes, sir, we do in that case; in the other case it is transported into Sugar Grove, Ohio.

Chairman Geiger: How far is Sugar Grove?

The Witness: I think it is 67 miles from the river.

Chairman Geiger: How far from Columbus?

The Witness: 35 miles.

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[fol. 1245] Q. Who pays the charges of The Connecting Gas Company; does the Columbus Gas & Fuel Company—

I mean The Ohio Fuel Gas Company pay those charges for transporting gas?

A. Are you asking about this gas which comes through the United Fuel around Covelick and through the Hope and the Reserve Companies into the Connecting?

Q. Yes, sir.

A. The Ohio Fuel pays half of that transportation charge.

Q. Who pays the other half?

A. The United Fuel.

Q. Well, how is that billed to you by the United?

A. The United bill it to us at 4½ cents a thousand, which is half of the total, along with the gas at 26½ cents, making the 31 cent price to us.

Chairman Geiger: Now where does that 4½ cents go; to whom is it paid?

The Witness: There is 9 cents paid to—we don't pay

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[fol. 1246] it, your Honor, but I can tell you where it goes, I think; part of it goes to the Connecting Company.

Chairman Geiger: Who are the Connecting Company?

The Witness: The Connecting Company is owned jointly by The Columbia and the Hope Natural Gas Companies; part of it goes to the Hope Natural Gas Company itself for part of the transportation, a certain other link in the transportation, and part of it goes to The Reserve Gas Company for another link in the transportation of that gas. You see, in order to get gas enough here for the winter in those higher places we have to make arrangements for this extra supply in the winter time around a different way than Ravenswood because the capacity of those lines is not sufficient, so that The United Fuel Gas Company supplies gas at a point known as Cedarville, West Virginia, to the Hope Natural Gas Company; and The Hope Natural Gas Company, they take it a distance in their lines, turn it over to the Reserve, and they take it a distance in their lines and turn it over to The Connecting Gas Company, and they deliver it to Sugar Grove; this nine cents some transportation charges in there, of which the Ohio Fuel Gas pays one-half and the United Fuel pays the other half.

Chairman Geiger: Well, does any of it that is paid finally get back into the treasury of the United Fuel who pays it?

The Witness: No, sir.

By Mr. Butler:

Q. How is it billed from the United Fuel and presented to you, for the total, or do they say so much gas and so much for transportation?

A. They say so much for gas, 31 cents, for that portion

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[fol. 1247] of the gas that goes around as I have described; the large portion of the gas that comes from Ravenswood is a direct sale to us at 26½ cents.

Q. Well, then——

Chairman Geiger: Wait a minute; the 26½ cents is paid—delivered to you at Ravenswood?

The Witness: Yes, sir.

Chairman Geiger: Then you transport it in your own lines to the gateway at Columbus?

The Witness: Yes, sir.

Chairman Geiger: And who gets the compensation for that transportation?

The Witness: We have not been getting much, Your Honor, since we deliver it here at 31.2 cents to the City of Columbus under the old contract. Now the difference between that and our other collection costs is reimbursed to the—The Ohio Fuel Gas Company is reimbursed for that through its sale of gas to its customers as well as to the wholesale points at the city gates.

Chairman Geiger: You add it to the cost of the gas to the consumer?

The Witness: All of the cost——

Chairman Geiger: For the transportation from Ravenswood to the Columbus gateway?

The Witness: Those elements are involved in here, yes, sir; the carrying charges and the investment and all, and the compressors, and all that is necessary to gather this gas and deliver it to the city gates must come out of the 45 cents that the Ohio Fuel charges at the city gates; otherwise it would not get a return on its property.

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[fol. 1248] By Mr. Butler:

Q. Where is Ravenswood?

A. Ravenswood is in West Virginia right along the river, the Ohio River, a little north of Pomeroy.

Q. And that is where the line of the Connecting Company ends?

A. No, Mr. Butler, the Connecting lines are still further north than that.

Q. Well, where does the United deliver this gas to you?

A. It delivers some of it at Ravenswood.

Q. Well, I am talking about that particular part that goes that way?

A. I think if I can show it on the map you will get it clearer.

Q. Your lines does not run to Ravenswood, does it?

A. It runs to the Ohio River.

Q. Well, you have to get over or under the river?

A. Well, the Ohio line—the Ohio Fuel Gas Company's line ends at the Ohio State line, which is the low water mark on the Ohio side of the river; that is where the Ohio Fuel Gas Company line ends.

Q. Wholly within Ohio?

A. Yes, sir.

Q. And who brings it to the Ohio line?

A. The United Fuel Gas Company.

Q. And they bill it to you as delivered at the Ohio line?

A. On the basis of the measurement at Ravenswood, which is back of the river a few miles—not many.

Q. Yes, I am talking about the point of delivery is on the Ohio side at low water mark; that is where you get your gas from the United, that part of the gas from The United Fuel Gas Company?

A. Well, of course, it is in transit all the time but that is where our line ends.

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[fol. 1249] Q. Well, what about The Columbia Gas & Electric Corporation, does it send any that way?

A. Not that way, no, sir.

Q. The United Fuel Gas Company sends much the other way too?

A. What other way?

Q. Is there any other way by which you get your gas from the United Fuel?

A. Yes, it sends this 12,000,000 feet a day through the winter time through the round-about way that I have told you, Covelick and the Connecting line—Cedarville, Covelick and the Connecting line into Sugar Grove.

Q. That is delivered to you at Sugar Grove?

A. Yes, there has been another line built, just completed last year, from Sugar Grove—or from a point south of Sugar Grove to the river at Kenova, West Virginia, which is another point of delivery of the United Fuel Gas Company but is under the same contract as the Ravenswood gas, simply putting that in to get more capacity for our markets up here.

Q. Oh, you have a written contract with the United Fuel Gas Company?

A. Yes, sir.

* * * * * * *

Q. This second delivery that you were talking about you get at Sugar Grove?

A. Yes, sir.

Q. Well, now in the bills there appears no charge on the face of the bills for carrying?

A. I think not.

Q. And The Ohio Fuel Gas Company is not interested

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[fol. 1250] in the carrying so far as those bills are concerned?

A. They are not their lines through which is is carried; they are interested to the extent of paying for half of it.

Q. Oh, that is taken care of in the contract?

A. Yes, sir

Q. I see. I see you reported the United Fuel Gas Company's purchases at 26.94 cents per thousand cubic feet?

A. Yes, that takes into consideration that other gas at 31 cents, which makes the average more than 26½ cents; the total amount of gas there shown on page 48 of the Utilities Commission report shows all the gas we buy from the United Fuel Gas Company; part of it is at 26½ cents and part of it is at 31 cents.

Q. Where is the 31 cent gas?

A. Well, it is all in there; it is all in the 15,486,000,000 cubic feet; it is part of that.

Chairman Geiger: What is the difference that you have between the 26 and the 31; what does it cover?

The Witness: It covers, Your Honor,—the line from Ravenswood has only a certain capacity; we have a certain obligation to meet to supply our customers with gas. The capacity of that line is not sufficient for that purpose. We saw the necessity of getting a larger supply of gas. Now we did not see the justification of building another line into that section of West Virginia. The Connecting Gas Company and the Hope Company had a little bit of reserve capacity in a rather round-about way that we could get this gas from another point in West Virginia known as Cedarville where the United Fuel Gas Company could deliver us gas at Cedarville. The Hope Natural Gas Com-

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[fol. 1251] pany could pick that up—in fact, we built a little bit of line to pick that up and put it into the reserve Gas Company line, which connected with the Connecting Company's line, which delivered gas to our Sugar Grove compressor station. Now by reason of our connection with those companies they were able to give us that service, they were able to give us that gas when we needed it here at the difference of nine cents for the transportation. Now, because it was both a United Fuel and Ohio Fuel arrangement, they split those transportation charges and the Ohio Fuel pays half of it, or 4½ cents, which makes the cost of that gas 31 cents delivered to us at Sugar Grove.

Chairman Geiger: Now that is paid upon the reserve supply of gas you have, that you do not use except where there is a large consumption of gas in Columbus; in other words, during the winter time?

The Witness: Well, not only Columbus, Your Honor; that is for the whole Ohio Fuel Gas Company property.

Chairman Geiger: But it is the excessive quantity of gas you require during the winter time?

The Witness: That is right.

Chairman Geiger: And is that additional price for transportation paid only upon that gas that is used for your winter heavy supply?

The Witness: That transportation is only based upon the actual number of feet going through the line.

Mr. Turner: He is asking whether it goes through the line at any other time than the winter time?

The Witness: It only goes through the three months each year, December, January and February, and is based solely

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[fol. 1252], upon the amount of gas that goes through there; it is not a fixed charge of any sort; it is just a charge of so much per thousand cubic feet.

By Mr. Butler:

Q. You have two contracts then I assume; that is, the Ohio Fuel Gas Company has two contracts with the United Fuel Gas Company?

A. Yes.

Q. Well, let me have a copy of each of them, and also the one with the Columbia. This Connecting Company, what is its correct corporate name?

A. I cannot tell you exactly; I think it is The Connecting Gas Company.

Q. What other companies are back of it, back of the Connecting Gas Company?

A. I do not know, sir; I cannot go that far back.

Q. Well, you don't know where I am headed for even.

A. Well, I cannot go the first step with you.

Q. What companies are there back of the Connecting, between it and the United and the Columbia, that assist in the transportation of gas; you have mentioned some of them but I could not follow them.

A. I don't know whether I can answer that question just as you have it.

Q. Well, in your way.

A. Because you say that the Columbia—in my picture I do not see the Columbia in there at all; if you will take the map you will find from Sugar Grove to the River are two lines belonging to The Connecting Gas Company; from that point back into West Virginia a certain distance are the lines of The Reserve Gas Company, through which this gas passes; from that point I think at Covelick to Cedarville, West Virginia, are the lines of The Hope Natural Gas Company, and it is at Cedarville where the United Fuel

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[fol. 1253] Gas Company delivers this gas to the Hope for the further transportation through the route that I just mentioned to you.

Q. Who owns this Reserve Gas Company?

A. That is owned by The Columbia Gas & Electric Corporation and the Hope Natural Gas Company, I think it is.

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[fol. 1254] Mr. Allensworth testified as follows:

Direct.

By Mr. Huffman:

Q. Mr. Allensworth, have you made an investigation or caused an investigation to be made under your direction of the records of the Ohio Fuel Gas Company in order to determine the amount of gas distributed and the operating expenses incident thereto for the year 1929?

A. I have, yes, sir.

Q. Directing your attention to what has been marked for the purpose of identification as City's Exhibit Number 70, I will ask you if that is such an exhibit?

A. It is.

Q. And the figures set forth in this Exhibit are a result of that investigation?

A. Yes, sir.

Q. Do the records of the Ohio Fuel Gas Company for the calendar year, 1929, reflect the results obtainable by the year's operation as the properties were constituted December 31st, 1929?

A. They do not.

Q. You may explain the changes in the property of the Ohio Fuel Gas Company during the year 1929, which you have discovered in your investigation?

A. At various times during the year 1929, important changes were made in the physical property of the Ohio Fuel Gas Company to such an extent that the company's records of the gas distributed and operating expenses incident thereto for the year 1929 do not reflect the results obtainable by one year's operation of the property included in the inventory and appraisal as of December 31st, 1929, of

the plant of the Ohio Fuel Gas Company which has been submitted in this case.

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[fol. 1255] To provide such a statement of gas distributed and expenses of operation incident with the property involved and to provide adequate and suitable data for a test year for the determination of the fair wholesale price of gas delivered to the Columbus Gas & Fuel Company by the plant of the Ohio Fuel Gas Company as constituted December the 31st, 1929, certain adjustments of figures contained in the company's records of gas distributed and operating expenses are required.

Q. You may tell us of those adjustments.

A. As of June the 1st, 1929, the property of the Logan Gas Company was transferred to the Ohio Fuel Gas Company and is included in the inventory and appraisal of the property of the Ohio Fuel Gas Company introduced in this case. The expense of operating this additional property and the gas distributed by it is included in the records of the Ohio Fuel Gas Company only for the last seven months of 1929.

As of June the 1st, 1929, the entire transmission property of the Northwestern Ohio Natural Gas Company was transferred to the Ohio Fuel Gas Company and is included in the inventory and appraisal of the property of the Ohio Fuel Gas Company introduced in this case. The expense of operating this additional property is included in the records of the Ohio Fuel Gas Company only for the last seven months of the year 1929.

After the transfer of the transmission lines, the Ohio Fuel Gas Company continued to transport through those lines the gas purchased by the Northwestern Ohio Natural Gas Company of Sugar Grove from the Hope Natural Gas Company and at Pavonia from independent Ohio producers, delivering it to the Northwestern Ohio Gas Com-

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[fol. 1256] pany at or near Toledo and receiving from the Northwestern Ohio Natural Gas Company a fee of 15 cents per M C. F. for this service.

Commissioner Bricker: That covered how much of the transmission line? All the way from Sugar Grove Station?

The Witness: All the way from Sugar Grove to Toledo. The revenue therefrom for the last several months of 1929 appears in the operating expense of the Ohio Fuel Gas Company as a reduction of general expense. The quantity of gas thus transported by the Ohio Fuel Gas Company for the Northwestern Ohio Natural Gas Company is not reported by the Ohio Fuel Gas Company, as part of the total gas handled by its transmission system.

Commissioner Geiger: What was that last statement?

The Witness: The quantity of gas transported by the Ohio Fuel Gas Company for the Northwestern Ohio Natural Gas Company is not reported by the Ohio Fuel Gas Company as part of the total gas handled by the transmission system of the Ohio Fuel Gas Company.

Commissioner Bricker: That is, in its exhibits for 1929 submitted here?

The Witness: Pardon me, I don't remember as to the exhibit. I am referring to the book account.

Commissioner Bricker: You haven't checked that against the exhibit?

The Witness: I am not so sure about the exhibit introduced relative thereto.

Commissioner Bricker: How is this 15 cents handled in their exhibit?

The Witness: As I remember it, it is mentioned that a

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[fol. 1257] 15 differential is taken and as a reduction from general expenses. As I remember it, that was only for the seven months of '29, six months, and not for the full 12 months. I may be in error on that, but that is my recollection at this time.

Mr. Turner: At this point, I might say that that Northwestern gas in exchange gas.

The Witness: May I proceed, Your Honor?

Commissioner Bricker: Yes.

The Witness: As of June the 1st, 1929, the property in the distribution areas of the City of Bowling Green and the Village of North Baltimore, both in Ohio, was transferred from the Northwestern Ohio Natural Gas Company to the Ohio Fuel Gas Company. Since no inventory and appraisal of the distribution property of the Ohio Fuel Gas Company has been presented in this case, this property is not included

in the inventory and appraisal of the Ohio Fuel Gas Company introduced in this case.

In the Ohio Fuel Gas Company records, the gas distributed by these distribution plants is included in the gas sold to the Northwestern Ohio Natural Gas Company during the first five months of 1929, while during the last seven months of that year, the gas distributed by these plants is included in the retail sales of the Ohio Fuel Gas Company and the expense of operating this additional property is included in the records of the Ohio Fuel Gas Company only for the last seven months of 1929.

As of September the 1st, 1929, the property in the distribution area of the Village of Sedalia, Ohio, was transferred from the Ohio Fuel Gas Company to the Dayton

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[fol. 1258] Power and Light Company. Since no inventory and appraisal of the distribution property of the Ohio Fuel Gas Company has been presented in this case, this property is not included in the inventory and appraisal of The Ohio Fuel Gas Company introduced in this case. In the Ohio Fuel Gas Company records, the gas distributed by this property is included in the retail sales during the first eight months of the year, while that distributed during the last four months of the year is included in the gas sold to the Dayton Power & Light Company and the expense of operating this distribution property is included in the records of the Ohio Fuel Gas Company only for the first eight months of 1929.

As of December the 31st, 1929, the entire property of the Pittsfield Gas Company was transferred to the Ohio Fuel Gas Company and is included in the inventory and appraisal of the Ohio Fuel Gas Company introduced in this case. The expense of operating this additional property for the year 1929 is not included in the records of the Ohio Fuel Gas Company and only that portion of the gas distributed by the Pittsfield Gas Company which was purchased from the Ohio Fuel Gas Company appears in the records of the latter company, that is, the Ohio Fuel Gas Company.

Q. Were certain adjustments required in the volume of natural gas produced, purchased and transported?

A. Yes, sir.

Q. What adjustments were required?

A. The Ohio Fuel Gas Company reports a total of 54,-

750,993 M. C. F. of gas purchased and produced during the year 1929. Of this total, 4,799,597 M. C. F. of manufactured gas was purchased and produced, and 50,951,396 M. C. F. of natural gas was purchased and produced.

Of the total 50,951,396 M. C. F. natural gas 23,693,445

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[fol. 1259] M. C. F. was produced and 27,257,951 M. C. F. was purchased.

The beforementioned 50,951,396 M. C. F. includes the gas produced by and purchased to supply the demands upon the former Logan Gas Company property only for the final seven months of 1929. During the first five months of that year, the Logan Gas Company is reported to have produced 5,986,986 M. C. F. and purchased 2,669,142 M. C. F., a total of 8,656,128 M. C. F. No gas was purchased by the Logan Company from the Ohio Fuel Gas Company during that year.

The Pittsfield Gas Company produced 82,061 M. C. F. and purchased 21,812 M. C. F. of natural gas from the Ohio Fuel Gas Company during the year 1929.

Thus, the natural gas produced and purchased for distribution in 1929 by the property of the Ohio Fuel Gas Company as that property was constituted December the 31st, 1929, is the total of the gas produced and purchased during that entire year by the Ohio Fuel Gas Company, the Logan Gas Company and the Pittsfield Gas Company as reported by the various companies, excluding, to prevent duplication, the 21,812 M. C. F. sold to the Pittsfield Gas Company by the Ohio Fuel Gas Company.

In other words, the demands during the year 1929 upon the property of the Ohio Fuel Gas Company as of December the 31st, 1929, necessitated the production and purchase of 59,689,586 M. C. F. of natural gas, of which 29,762,493 M. C. F. had been produced by that property and 29,927,093 M. C. F. had been purchased.

In addition thereto the Ohio Fuel Gas Company transported for the Northwestern Ohio Natural Gas Company during the last seven months of 1929, *in* 2,369,249 M. C. F.,

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[fol. 1260] out of which 2,197,195 M. C. F. was transported from Sugar Grove, Ohio, to Toledo and 191,054 M. C. F. was transported from Pavonia, Ohio, to Toledo.

Commissioner Bricker: That is not included in your total amount of gas purchased or produced?

The Witness: It is not included in my discourse up to this point, Your Honor, please. I am now making reference to it.

Commissioner Bricker: I see. You are just coming to your summary.

The Witness: Yes. Now, referring again to the Northwestern Gas, during the first five months of 1929, this transmission system, then the property of the Northwestern Ohio Natural Gas Company, after June the 1st, 1929, the property of the Ohio Fuel Gas Company, transported 2,095,521 M. C. F. of natural gas, of which 1,948,152 M. C. F. entered the system at Sugar Grove and 147,369 entered the system at Pavonia.

Thus, the total natural gas which the Ohio Fuel Gas Company would have transported for the Northwestern Ohio Natural Gas Company throughout the year 1929, had the transfer of the Northwestern Ohio Natural Gas Company transmission system to the Ohio Fuel Gas Company taken place prior to January the 1st, 1929, instead of June the 1st, 1929, amounts to 4,464,770 M. C. F. of which 4,126,347 M. C. F. were transported from Sugar Grove and 338,423 M. C. F. was transported from Pavonia, both to a delivery point at or near Toledo.

Thus, the property of the Ohio Fuel Gas Company as constituted December the 31st, 1929, had handled during the year 1929 a total of 64,154,355 M. C. F. of natural gas,

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[fol. 1261] of which 29,762,492 M. C. F. had been produced by that property, 29,227,093 M. C. F. had 2 — purchased, and 4,464,770 M. C. F. had been transported for the sister company, the Northwestern Ohio Natural Gas Company.

Q. Now, Mr. Allensworth, what adjustments were required in the volume of natural gas distributed and transported?

A. During the year 1929, the Ohio Fuel Gas Company reports a total distribution of 51,151,257.9 M. C. F. of which 3,709,393.2 M. C. F. was manufactured gas and 47,441,864 M. C. F. was natural gas.

This total natural gas, that is 47,441,864.7 M. C. F. is overstated in the company's records due to a change made in accounting methods during the year, resulting in the in-

clusion in the company's records of an additional month's gas consumption for a small portion of its consumers. The company claims that this overstatement amounts to 333,675.7 M. C. F., and that the total natural gas distributed, that is, 47,441,864.7 M. C. F. should be reduced by that amount to provide the amount of natural gas reported as distributed during a test year or the test year.

Following the company's claim without prejudice and deducting the 333,675.7 M. C. F. from the total reported, produces a revised total natural gas distributed amounting to 47,108,189 M. C. F. which figure is referred to and will be used hereafter in my testimony as though it were, in fact, the total natural gas distributed.

Of this total 47,108,189 M. C. F. of natural gas, 16,924,238 M. C. F. is reported as retail sales, 26,700,547.5 M. C. F. is reported as sales to wholesale customers, and 3,483,376.5

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[fol. 1262] M. C. F. is reported as free gas.

This total natural gas distributed, that is, 47,108,189 M. C. F., includes the natural gas distributed through the property of the former Logan Gas Company only for the last seven months of the year 1929. During the first five months of 1929, the Logan Gas Company reported the distribution of 8,001,392.9 M. C. F. of natural gas, of which 4,569,810.5 M. C. F. is reported as retail sales, 2,897,489 M. C. F. is reported as sales to wholesale consumers and 534,093.4 M. C. F. is reported as free gas.

The total natural gas reported as distributed by the Ohio Fuel Gas Company during the year 1929, that is, the figure 47,108,189 M. C. F., includes the gas distributed in the Bowling Green and North Baltimore areas and the gas sold to certain wholesale consumers along the transmission line for merely the property of the Northwestern Ohio Natural Gas Company only during the last seven months of the year 1929. During the first five months of that year, the Northwestern Ohio Natural Gas Company reported 128,291 M. C. F. as retail sales through the Bowling Green and North Baltimore properties and 19,588 M. C. F. as sales to wholesale consumers, deliveries to whom were made by the Ohio Fuel Gas Company after June the 1st, 1929.

Inasmuch as the Northwestern Ohio Natural Gas Company purchased 2,234,029 M. C. F. of natural gas from the Ohio Fuel Gas Company during the year 1929, the before-

mentioned detail sales in the Bowling Green and the North Baltimore areas, that is, 128,291 M. C. F., and the beforementioned sales to wholesale consumers, that is the amount 18,588 M. C. F., during the first five months of 1929, are

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[fol. 1263] considered as a portion of the gas purchased from the Ohio Fuel Gas Company by the Northwestern Ohio Natural Gas Company during that period, in other words, a portion of the sales to wholesale customers reported by the Ohio Fuel Gas Company during that period.

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[fol. 1264] Tuesday Afternoon Session, October 6th, 1931, 1:30 o'clock

And also—

HARRY R. ALLENSWORTH, resuming the stand for further examination in chief, continued his testimony as follows:

Examined by Mr. Huffman:

Q. At the time of our adjournment, Mr. Allensworth, you were discussing the adjustments required in the volume of natural gas distributed and transported by the Ohio Fuel Gas Company for the year 1929. Will you please continue that discussion?

A. Yes. I was at the time of recess up to the point of stating that during the year 1929, the Pittsfield Gas Company reported sales of natural gas to wholesale customers, amounting to 98,684 M c. f., of which 21,812 M c. f. had been purchased from the Ohio Fuel Gas Company and included in the latter company's, that is the Ohio Fuel Gas Company's report on gas sold to wholesale customers. The balance—that would be the amount 76,872 M c. f.—is not included in the sales of natural gas reported by the Ohio Fuel Gas Company.

During the first eight months of the year 1929, the Ohio Fuel Gas Company reported as retail sales in the village of Sedalia 5,742.6 M c. f. through property transferred to the Dayton Power & Light Company as of September 1st, 1929. During the succeeding four months, the gas distributed through the Sedalia plant is reported by the Ohio Fuel Gas Company as a portion of its wholesale sales to the

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[fol. 1265] Dayton Power & Light Company. Thus the quantity of natural gas distributed during the year 1929 by the plant of the Ohio Fuel Gas Company, as that plant was constituted December 31st, 1929, is the quantity reported as distributed by that company, namely, 47,108,189 M c. f., plus the quantity reported as distributed by the former The Logan Gas Company during the first five months of 1929. That amount is 8,001,392.9 M c. f., plus the quantity reported as distributed by the Pittsfield Gas Company, after deducting the Pittsfield purchased from the Ohio Fuel Gas Company. The total natural gas distributed during the year 1929 by the property of the Ohio Fuel Gas Company as constituted December 31st, 1929, therefore becomes 55,186,453.9 M c. f., of which amount——

Mr. Turner: If Your Honors please, the fact that we are not constantly interrupting here does not indicate that we are not objecting to this an immaterial.

Commissioner Bricker: You are not consenting to it?

Mr. Turner: It does not mean that we are consenting to it.

Commissioner Bricker: The record may show your objection runs to the immateriality of this testimony under this exhibit.

Mr. Turner: What he is reading now—there is a lot of it that has nothing to do with this case as we see it.

Commissioner Bricker: All right, proceed.

Mr. Huffman: With which, of course, we disagree.

Mr. Turner: Sure, or you would not offer it.

Q. You may proceed, Mr. Allensworth.

A. Then, to repeat, the total natural gas distributed dur-

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[fol. 1266] ing the year 1929 by the property of the Ohio Fuel Gas Company, as that property was constituted December 31, 1929, amounted to 55,186,453.9 m. c. f., of which 21,616,596.9 m. c. f. was distributed to retail customers; 29,552,387.1 m. c. f. was distributed to wholesale customers; and 4,017,469.9 m. c. f., was distributed as so-called free gas, that is, gas used either in operations or distributed to customers for other than a monetary consideration.

As heretofore explained, the property of the Ohio Fuel Gas Company, as constituted December 31st, 1929, transported during the year 1929, 4,464,770 m. c. f. of natural gas for the Northwestern Ohio Natural Gas Company, which

amount is not included in the reported distribution of the Ohio Fuel Gas Company. Therefore, the total natural gas delivered during the year 1929 by the property of the Ohio Fuel Gas Company as constituted December 31st, 1929, becomes 59,651,233.9 m. c. f.

Q. Did you find certain adjustments of operating expenses to be necessary in your calculations, Mr. Allensworth?

A. Yes, sir, I did.

Q. You may explain those adjustments?

A. The heretofore explained changes in the property of the Ohio Fuel Gas Company during the year 1929, and the adjustments in the quantity of natural gas produced, purchased and delivered by the Ohio Fuel Gas Company during that year to reflect the quantity of natural gas produced, purchased and delivered during the same period, by the plant of the Ohio Fuel Gas Company as it was constituted December 31, 1929, necessitates corresponding adjustments in the operating expense accounts as recorded by the Ohio Fuel Gas Company for the year 1929.

4298

[fol. 1267] To simplify the adjustments and to meet the requirements of this exhibit, utilization, commercial and business promotion expense and the cost of purchasing, producing and distributing manufactured gas in Toledo and Warren, Ohio, have been treated as a part of distribution expense, and whenever the title "Distribution expense" is used in my testimony relative to this subject hereafter, it should be understood to include the before mentioned items.

During the year 1929 the Ohio Fuel Gas Company reported operating expense other than depreciation, amortization of natural gas rights and leases, taxes and interest in the amount of 13,410,332.56, of which $6,419,056.25 represented natural gas purchased, $85,964.09 expense attending gas purchased, $2,654,377.77 cost of producing natural gas, $1,741,794.11 transmission expense, $2,163,280.14 distribution expense as hereinbefore defined, and $345,860.20 general expense, which includes non-productive well drilling expense and operating deductions.

The operating expense of the Ohio Fuel Gas Company as thus reported, that is, the amount 13,410,332.56, includes the expense of operating the property acquired during the

year 1929 only for that portion of the year during which this so acquired property was operated as a part of the Ohio Fuel Gas Company. Consequently the expense of the balance of the year must be included to provide statement of the operating expenses for the year 1929 of the property of the Ohio Fuel Gas Company as constituted December 31st, 1929.

During the first five months of 1929, the former, The Logan Gas Company, reported operating expenses other

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[fol. 1268] than depreciation, amortization of natural gas rights and leases, taxes and interest, in the amount of——

Mr. Turner: I have said I do not want to interrupt, and I do not, but I just call your attention specifically to the fact that we are not trying The Logan Gas case here, too.

Mr. Huffman: Well, the Logan was a part of the Ohio Fuel Gas Company at that period.

Mr. Turner: Wait a minute until I get through. The Logan was not a part of the Ohio Fuel Gas Company at that period. We have given the time when they became a part of the Ohio Fuel Gas Company. Now, they want to put the operations on and extend them back into the Logan Company. I just call your attention to it.

Commissioner Bricker: Since it don't go beyond the year in which the consolidation took place, all right. Beyond that, I do not think we would be interested.

Mr. Huffman: I think it was operated in conjunction with the other since 1927.

A. Then, to repeat a few words, so that the explanation will be continuous, during the first five months of 1929, the former, The Logan Gas Company, reported operating expenses other than depreciation, amortization of natural gas rights and leases, taxes and interest, in the amount $1,760,713.96, of which $741,146.96 represented natural gas purchased, $3,913.60 expense of attending gas purchased, $1,060,160.09 cost of producing natural gas, $337,236.12 transmission expense, $319,207.68 distribution expense, and $44,110.07 general expense.

4300

[fol. 1269] During the entire year of 1929, the Pittsfield Gas Company reported operating expense other than depreciation, amortization of natural gas rights and leases,

taxes and interest in the amount of $16,379.79, of which amount $10,906.00 represented natural gas purchased from the Ohio Fuel Gas Company, which amount is eliminated to prevent duplication, $5,364.35 represented the cost of producing natural gas, $95.06 represented transmission expense, and $14.38 general expense.

During the first five months of 1929, The Northwestern Ohio Natural Gas Company reported operating expense of the transmission line subsequently transferred to the Ohio Fuel Gas Company in the amount $90,289.16.

The expense of operating the distribution plants at Bowling Green and North Baltimore during the first five months of 1929, is included in the distribution expense of the Northwestern Ohio Natural Gas Company, and the expense of operating the distribution plant at Sedalia for the first eight months of 1929 is included in the distribution expense of the Ohio Fuel Gas Company.

Mr. Turner: If Your Honors, please, you understand we have not introduced any distribution expense at all of the Ohio Fuel Gas Company. We have attempted to show the wholesale price at the city gates without distribution; so far as the Ohio Fuel Gas Company distribution is concerned, that is the retail distribution, its own distribution, other than its wholesale expense. To such companies as the Columbus Gas & Fuel Company, we have not offered any evidence of that kind at all.

4301

[fol. 1270] Mr. Huffman: Well that is true.

A. Any determination of the amount of distribution expense of these plants mentioned would involve the proving and allocation of distribution expense, not only of the Ohio Fuel Gas Company, but also of the Northwestern Ohio Natural Gas Company. The amount of adjustment indicated as a possible result of determining the distribution expense of the three small distribution areas, is so small as to be negligible. The distribution expense per se or by itself considered of the Ohio Fuel Gas Company or the Northwestern Ohio Natural Gas Company, as I understand the matter, is not at issue in this case, since neither company distributes natural gas to consumers in the City of Columbus. Consequently, in consequence of that, I make no adjustment in the distribution expense of the Ohio Fuel Gas Company

to reflect the transfer of the property in these three small distribution areas.

Q. Well, what correction of bookkeeping accounts, if any, did you find necessary?

A. I found a number of bookkeeping errors in the accounts of the Ohio Fuel Gas Company. The errors requiring deductions for correct statement of the expense of the company amounted to $14,887.47. The errors that require additions to the expense accounts of the Ohio Fuel Gas Company amounted to a total of $32.40, so that the bookkeeping errors discovered in this investigation amounted to, in numbers, actually, $14,887.47. If I may I would like to correct the former figure. The total deductions for errors was $14,919.87, and not the amount that I previously read.

Q. In order to arrive at a correct basis for testing the 4302

[fol. 1271] fairness of the wholesale price of gas at the city gate, did you find it necessary to make certain interpretations of the acounts of the Ohio Fuel Gas Company?

A. I did.

Q. Will you tell the Commission concerning these interpretations?

A. Yes, the reported production expense, that is, the amount, $2,974,841.65 for the property of the Ohio Fuel Gas Company as constituted December 31st, 1929, includes rentals on unoperated leases in the amount $1,684,913.39. In my interpretation this item is a non-operating expense and is therefore eliminated. Non-productive well drilling expense——

Q. That account number is 360, is it not?

A. I believe so, yes. I haven't the account numbers here. Non-productive well drilling expense amounting to $618,788.82 is included in the company's reported general expense. In my interpretation this is a part of the expense of production and is therefore added to production expense. These two adjustments make a net reduction in production expense of $1,066,124.57, and the production expense for the year 1929 of the property of the Ohio Fuel Gas Company as constituted December 31st, 1929, becomes $1,908,717.08.

Natural gas franchise requirements expense, that is, account 450, amounting to $26,891.90, and municipal free gas, that is account No. 461, that is, a credit item, amounting to $23,666.90, are included in the reported general expense.

But in my interpretation these items are a part of the expense of distribution and accordingly are transferred from general expense to distribution expense. This adjustment makes a net increase in distribution expense of $3,225.00,

4303

[fol. 1272] and the distribution expense for the year 1929 of the property of the Ohio Fuel Gas Company as constituted December 31st, 1929, becomes $2,485,712.82.

In the reported general expense of the Ohio Fuel Gas Company is included general officers' salaries in the amount $17,378.04, and fees paid to the Columbia Engineering & Management Corporation amounting to $520,783.98. I eliminate this engineering and management fee, and in lieu thereof, increase general officers' salaries by $50,000.00 making a net reduction in general expense amounting to $470,783.98.

As I have before explained, the item non-productive well drilling expense in my interpretation has been transferred to production expense, reducing the general expense by the amount of $618,788.82. Natural gas franchise requirements, $26,891.90, and municipal free gas—that is a credit—in the amount $23,666.90, have been transferred to distribution expense, reducing the general expense $3,225.00.

As I have previously explained, during 1929 and Ohio Fuel Gas Company charged miscellaneous other general expense account 457, $20,000.00 for reserve for inventory and appraisal in preparation for the so-called sixty cities case.

Q. Is that the sixty villages case?

A. Sixty villages case, or sixty cities case. In addition thereto, miscellaneous expenditures amounting to $1,860.52 incurred for advertising new rates, employees' expense in making rate studies, meeting city officials, and so forth, were charged to miscellaneous general expense account 457. This entire figure, $21,860.52, is, in my interpretation, rate case expense, and, together with the $31,661.94 reported rate case expense is eliminated.

During April 1929, a charge of $150.11 for exhibition

4304

[fol. 1273] space at the Builders and Homes Exposition, and a charge of $150.00 for space at the Industrial Progress Exposition, was made to miscellaneous other general ex-

pense, that is, account No. 457, on the books of the Ohio Fuel Gas Company.

In December 1929, as in the case of the Columbus Gas & Fuel Company, the expense of operating the home service department, amount $3,922.97, was transferred to miscellaneous other general expense.

As these expenditures represented by these three items were occasioned by and primarily beneficial to the Gas and Electric Appliance Corporation, the total amount, $4,223.08, in my interpretation is eliminated from the operating expense of the Ohio Fuel Gas Company as adjusted for the year 1929.

The Ohio Fuel Gas Company for the year 1929 reports revenue from the transportation of gas for the Northwestern Ohio Natural Gas Company, amounting to $354,383.85, which is included as a credit to general expense. As I have explained before, this gas was transported for the Northwestern Ohio Natural Gas Company by the Ohio Fuel Gas Company only during the last seven months of 1929. Had the same arrangement been in force throughout the year 1929, the Ohio Fuel Gas Company would have transported 2,095,521 m. c. f. more of natural gas for the Northwestern Ohio Natural Gas Company and would have received therefor at the contract rate of 15 cents per thousand, $314,328.15 additional revenue. The total revenue for transporting natural gas for the Northwestern Ohio Natural Gas Company would have been $668,712.00. The effect of this adjustment is a reduction of the reported general expense by the amount of $314,328.15.

4305

[fol. 1274] These corrections and interpretations of the reported expense accounts of the Ohio Fuel Gas Company for the year 1929 produced the statement of operating expenses set forth in detail in this what has been marked City's Exhibit No. 70.

Q. You may turn to page 1 of what has been marked City's Exhibit No. 70, Mr. Allensworth and beginning with account 369, explain that page as set up.

4306

[fol. 1275] Commissioner Hopple: Omit the reading of the title. The Commission will take judicial notice of the title.

Q. The first item appearing on this page appears under 4307
[fol. 1276] the title "Purchased gas", and under that title is the item, "Natural gas purchased, account No. 369", which is revealed in the amount $7,160,203.21.

The next item is the expense of attending gas purchased, which is revealed in the amount $89,877.69. The total of these two amounts being $7,250,080.90. These amounts are taken from the company's book accounts of the property as constituted December 31st, 1929.

The Natural gas purchased amount, namely, the first amount in dollars on this page, $7,160,203.21, is equal to 23.93 cents per thousand of natural gas purchased.

The next item, expense of attending gas purchased, amount $89,877.69, is equal to .3 of a cent per thousand cubic feet of gas purchased. The total of these two amounts is equal to 24.23 cents per thousand cubic feet of natural gas purchased.

Commissioner Bricker: That is carried ahead of the last six months of that period, your contract cost of gas; is that your 23.9?

The Witness: That is the contract price paid by the Ohio Fuel Gas Company for the gas it purchased. This is not the prices paid by the Columbus Gas & Fuel Company.

Commissioner Bricker: Where do you get this 23.9?

The Witness: Why, dividing $7,000,000.00 plus by the number of cubic feet purchased by the Ohio Fuel Gas Company during the year 1929.

Commissioner Bricker: This is their book figure then?

The Witness: That is their book figure for the property as constituted December 31st, 1929. Now, I may say that 4308
[fol. 1277] that purchased gas amount is the result of many purchases. The gas purchased from independent producers, as I remember it, averages 15½ cents per thousand. The gas purchased from the corporations of the Ohio Fuel is purchased at a higher rate than it is purchased from the independent producers, and the total average is 23.9.

Commissioner Hopple: The total?

The Witness: That is the total of the gas purchased.

Commissioner Hopple: What is the 24.23 total?

The Witness: That is after adding the expense of at-

tending the gas purchased. That is the expense of metering and accounting for gas purchased.

Commissioner Hopple: Now the total, to my way of speaking—do you mean that 24.23 is the cost of the gas that the Ohio Fuel Gas Company sold, total gas, gas sold to the Columbus Gas & Fuel?

The Witness: That is the expense from their books, not cost. It is the account of expense for the gas they purchased, which expense enters into the cost of gas delivered to Columbus. That is just one item.

Commissioner Hopple: Other expenses are to be added to this?

The Witness: Not added to. There are other expenses to be taken into consideration.

Commissioner Bricker: Did the Ohio Fuel Gas Company actually pay 24.23 for all of the gas it purchased?

The Witness: Including the cost of attending gas purchased, that is what their books reveal, yes, sir.

Commissioner Bricker: Does this cover all of the gas 4309

[fol. 1278] purchased by the Ohio Fuel Gas?

The Witness: Yes, sir.

Mr. Huffman: As shown for the year 1929?

Commissioner Bricker: That is what I mean.

Commissioner Hopple: That is what that company paid for it.

The Witness: Yes, sir, that is what their books show they paid for it.

Mr. Huffman: On an average.

The Witness: Yes, the average of all.

Commissioner Hopple: Average per thousand cubic feet?

The Witness: Yes.

Commissioner Bricker: That comprises both the gas purchased in Ohio at the wells and that purchased from the West Virginia Companies?

The Witness: Yes, sir. Directing attention to the next general total on this page, namely, production expense, thereunder is found a detailed statement of production expense as revealed by the books of the Ohio Fuel Gas Company after making adjustments heretofore referred to. In other words, the rental on unoperated leases is excluded, and the cost of dry hole drilling is transferred from general expense and included here in the detailed items of production expense. The total of these expenses is $1,908,717.08.

By Mr. Huffman:

Q. I would like to call your attention there to the amount, the exact amount, for non-productive well drilling expense.

A. Yes, the amount of unproductive well drilling expense here included is $618,788.82.

Q. That is dry hole expense, is it not?

4310

[fol. 1279] A. That is the expense of drilling dry holes as reported for the year 1929. And that is practically one-third of the total production expense as here revealed, namely, the amount $1,908,717.08. This total amount of production expense is equal to 6.4 cents per thousand for the amount of gas produced by the Ohio Fuel Gas Company, that is, the operating expense of production before depreciation expense, taxes and return on investment, 6.4 cents per thousand.

Directing attention to the next general title, "Transmission expense"; thereunder is found a detail of transmission expense items, and all of those amounts are the amounts revealed by the company's books for the property of the Ohio Fuel Gas Company as constituted December 31st, 1929. The total amount of transmission expense which is revealed on page 2 in the amount $2,169,414.45 is equal to 3.38 cents per thousand feet of gas transported. The next——

Q. Now, is that transported, Mr. Allensworth, to all parts of the Ohio Fuel system?

A. Yes, that is for transportation throughout the system, the average of all gas transported.

Q. That figure is applicable to the whole system?

A. And it perhaps should be explained that that is the operating expense of transmission and that is before depreciation and taxes and return on investment.

The next general classification——

Commissioner Bricker: I want to ask just one more question about this average cost back here.

Mr. Huffman: You are referring to the production now?

Commissioner Bricker: No, to purchased gas. That

4311

[fol. 1280] average is simply taken by the cost on the books and divided by the number of cubic feet.

The Witness: Purchased.

Commissioner Bricker: Purchased?

The Witness: Yes.

Commissioner Bricker: And that includes your gas purchased at the Ohio River?

The Witness: Yes, sir.

Commissioner Bricker: From both the producing companies under the contract arrangement that the two companies have——

The Witness: That is correct.

Commissioner Bricker: And also all gas purchased at the wells of independent producers in Ohio?

The Witness: Correct. That is correct.

Q. Do you remember the amount paid the independent producers?

A. 15½ cents as I remember it. It may be illuminating to the Commissioner if I explain that that cost of purchased gas, if converted into cost per thousand of purchased gas distributed, becomes 14 cents. This 24.23 is the average cost of the gas purchased.

Commissioner Hopple: Of all gas?

The Witness: Of all gas purchased. Now, if that is spread over all of the gas distributed, the cost of purchased gas is 14 cents a thousand. Do I make myself clear?

Mr. Turner: No.

The Witness: Then I will attempt a more detailed explanation.

Commissioner Bricker: You may clear it up later on.

4312

[fol. 1281] The Witness: The gas company accounts for gas purchased in the amount of 29,927,093 m. cubic feet of gas, for which its records show it paid $7,250,080.90, which includes $89,877.69, expense of attending the gas purchased. Now, dividing the amount paid, the $7,000,000.00 plus, by the amount of gas purchased, 29,000,000 cubic feet plus of purchased, produces 24.23 cents.

Commissioner Bricker: Yes, we have that.

The Witness: Now, as a matter of fact, the company distributed a whole lot more gas than it produced. It distributed 51,168,984 m. cubic feet of gas. Dividing that amount into the amount it paid for gas it purchased, produces 14.17 cents per thousand. Now, do I clear that up?

Commissioner Bricker: Is there in that $7,000,000.00 some transportation?

The Witness: No.

Commissioner Bricker: Or delivery charge of any kind?

The Witness: No, that is the price——

Mr. Huffman: That is just purchased gas.

The Witness: That is the price paid to independent producers, 15½ cents a thousand, the amount paid to the Preston Oil Company, 35 cents a thousand for the gas it acquired from that source, the amount paid to the West Virginia Company at 20 some cents a thousand, whatever that was, and then the average of all of that purchased and the purchased price was 24.23 a thousand. Now, the gas distributed, however—that is only about half of the gas the company has. They produced a lot of gas and the figures I read for the production expense were only 6.4 cents per thousand. That is

4313

[fol. 1282] a figure comparable to this other figure.

Commissioner Bricker: In other words, for producing themselves, it cost 6 cents.

The Witness: 6.4 a thousand.

Q. Does that include taxes?

A. That does not include taxes, depreciation and those items. That is the operating expense production.

Commissioner Bricker: Oh, I see what you are driving at. You are averaging the purchased gas with the produced gas and taking the cost of distributed gas?

The Witness: Well, I will, ultimately, I suspect, I haven't got that far yet, but I am reciting first the cost of gas by specific items.

Mr. Huffman: Yes, but the Commissioner is correct in his divining your purpose.

The Witness: Yes, I think so.

Commissioner Bricker: All right, go ahead.

Q. Had you completed with the transmission expense explanation?

A. Yes, I think I recited that the total transmission expense, that is, the total operating expense of transmission, averaged 3.38 cents per thousand of the gas transported. And, directing your attention to the next title, "Distribution Expense", thereunder, on pages 2 and 3, is found a detailed statement of distribution expense, as I have heretofore de-

fined it in my testimony. The total amount of $2,485,712.82, which is distribution expense, is equivalent to 8.5 per thousand.

Commissioner Bricker: What was your average on the transmission expense?

The Witness: 3.38 cents per thousand, the operating ex-
[fol. 1283] pense cost of transmission.

4314

By Mr. Huffman:

Q. Mr. Allensworth, have you had time to go through all of these accounts and check them out carefully?

A. No, this exhibit and this report and my testimony thereon is a result of an investigation, not what I would call a detailed audit. I am quite sure that if I had had the time that I would have found that some of these very large expenses should be reduced to produce operating expenses for a test year.

Commissioner Hopple: Let me ask you at this point, under the head of distribution expense you arrive at a percentage figure of 8.05. By what amount do you determine the 2,485,000—What number of cubic feet of gas or by what figure do you divide that to arrive at that percentage?

Commissioner Bricker: That number of cents.

The Witness: That figure, if the Commission please, 2,485,000 is not the figure I divide to produce the 8.5 cents per thousand. The amount of gas accounted for as distributed retail—this is retail distribution—was 21,616,596.9 m. c. f. That is divided into the cost of distributing natural gas, which is $1,843,250.88. To which amount, to produce the amount appearing on page 3 as the total distribution expense, namely, $2,485,712.82, should be added manufactured gas purchased, manufactured gas produced, manufactured gas distributed, which will make then a total, as shown on page 3, of $2,485,712.82.

Answering you specifically now, after that explanation, the 8.5 cents per thousand distribution expense, is produced by dividing the cubic feet of gas accounted for by the company as distributed into $1,843,250.88, distribution expense

4315

[fol. 1284] of natural gas, excluding artificial.

Q. On page 4, Mr. Allensworth, you have set forth a detailed list of the general expenses by account numbers. Do you wish to explain any of these figures to the Commission?

A. Yes. On page 4 there is revealed under the title "General Expense", the detailed items of general expense, which includes both administrative expenses and other general expenses. The amounts revealed there in detail are the same as revealed on the company's books, excepting as to items heretofore explained in my testimony, and the amount appearing at the bottom opposite the title "General Expense" $1,089,774.31, is a credit or a deduction from the other expense accounts, for the reason that the credits to general expense overbalance the debits.

The amounts appearing on the bottom of page 4, namely, total operating expense prior to depreciation, amortization and taxes, $12,724,150.94, is the amount, total amount, of operating expense revealed by this investigation, which is the amount, that is to say, the maximum amount of expense of the Ohio Fuel Gas Company properly allot-able to and considered part of the 1929 operations.

Q. Except for reductions made for reasons which you have explained for the purposes of this exhibit you have accepted the figures of the Ohio Fuel Gas Company then for the period and have reproduced them herein?

A. That is correct. Those figures are accepted without prejudice for this purpose.

Q. You stated a few moments ago that this total figure for operating expense prior to depreciation, amortization and taxes did not include the latter. Have you made a

4316

[fol. 1285] study of the property taxes of this company for the year 1929?

A. Yes, the property taxes paid for the year 1929 on the property of the Ohio Fuel Gas Company as constituted December 31, 1929, amounted to $1,052,680.32.

Q. Have you made a similar study to discover the auto license taxes?

A. Yes the amount paid by the company during the year 1929 for auto licenses was $9,058.19.

Mr. Turner: Mr. Huffman, I may have been mistaken, but I got the taxes paid as $1,052,680.32. Is that the figure?

The Witness: That is correct.

Mr. Turner: Does that eliminate altogether the income tax?

Q. That is only the property tax, is it not?

A. Yes, sir, I was testifying to the property tax.

Mr. Turner: Does not take in income or excise tax or utility expense.

Mr. Huffman: Yes, that is correct. That related to property tax alone.

The Witness: Yes.

Q. And the auto license figure which you have just testified to includes no other taxes except for auto licenses?

A. That is correct.

Q. What was the result then of these investigations? What is the total?

A. The result of my investigation, as I have before stated, is a total operating expense prior to depreciation, amortization and taxes in the amount of $12,724,150.94.

Q. Is the excise tax accounted for here?

A. No, I haven't shown excise tax in this exhibit, nor have I shown income tax or public utility maintenance tax.

4317

[fol. 1286] Mr. Davies: We offer at this time, if the Commission please, City's Exhibit No. 7.

Mr. Turner: We note an objection.

Commissioner Bricker: It may be admitted. Note an exception.

And thereupon the paper writing above referred to was offered, introduced and admitted in evidence on behalf of the City of Columbus, subject to the objection and exception of the Columbus Gas & Fuel Company, and is herewith submitted, marked City's Exhibit No. 70, and made a part hereof.

4331

[fol. 1287] Mr. BLUNDON testified as follows:

Direct:

Q. Have you made certain studies concerning the Ohio Fuel Gas Company properties, and, if so, what studies have you made in connection with this case?

A. I have made studies showing a comparison of the pipe prices used by Ford, Bacon & Davis in the United Fuel Gas Case, and in the Ohio Fuel Gas Appraisal, a study showing the elimination of certain property contained in

the company's inventory in the Ohio Fuel Gas Appraisal which is not used or useful;

A study showing my estimate of the proper general overhead charges necessary in the cost of reproduction of the Ohio Fuel Gas Property;

A study of gas well depreciation of the gas wells of the Ohio Fuel Gas Company property;

A study of the proper depreciation allowance, a proper annual depreciation allowance, for the Ohio Fuel Gas Company;

An allocation of the United Fuel Gas property to determine the maximum fair rate that could be charged the Ohio Fuel Gas Company for gas at the Ohio River;

An allocation of the property and expenses of the Ohio Fuel Gas Company to determine the maximum fair city gate rate at Columbus;

A study based upon a substitute system to serve as a check of the correctness of the allocation of the Ohio Fuel

4332

[fol. 1288] Gas Company property;

And a study of the fair price of gas, the maximum fair price of gas, at the City gate of Columbus under the gas purchased;

And have under way a study of a proper amount to be included in the cost of reproduction of the Ohio Fuel Gas property for direct overheads;

And also a study of the cost of reproduction of the Number 1 leaseholds of the Ohio Fuel Gas property.

Q. You have just referred to the last two subjects that are under way. They have not been completed?

A. They have not been completed, no, sir.

Q. In order to complete the one, it was necessary for you to have the breakdowns of those several accounts that Mr. Antonelli was to furnish and have now furnished within the last few days?

A. Yes, sir.

Q. And the other has been waiting on the production of the consideration column in the detailed lists of gas lands as of June 30, 1929, that has been produced today?

A. That is correct, yes.

And thereupon the paper writing heretofore referred to was marked for the purposes of identification City's Exhibit Number 74.

Q. I hand you what for the purposes of identification has been marked as City Exhibit Number 74, entitled, "Report, Ohio Fuel Gas Company, city gate rates, Columbus, Ohio, prepared for the City of Columbus, J. Paul Blundon,

4333

[fol. 1289] consulting engineer, Charleston, West Virginia and Keyser, West Virginia," and ask you if that contains the studies to which you have just referred?

A. It does.

Q. Well now, take up first the study or comparison of pipe prices. I wish you would please state what you did in this regard and give us the result?

A. In preparing the appraisals in the United Fuel Gas case, the appraisal for the company was prepared by Ford, Bacon & Davis, and the appraisal for the city was prepared by ourselves. We checked very closely on the pipe prices. In some instances, I would be higher, and in some instances, they would be higher, and vice versa. And the study that I have presented here is a comparison of the pipe prices used by Ford, Bacon & Davis in the Ohio Fuel Gas Company case and United Fuel Gas case, after first ascertaining that there was no difference in pipe prices between December 31, 1928, and December 31, 1929, they being the respective dates certain of the two appraisals, and after adjusting those pipe prices to the common freight rate of .00185 dollars per pounds, it being the freight rate used in the Ohio Fuel Gas appraisal. A summary of the differences is shown on Page 2.

Q. Just one moment. Let me interrupt. The appraisement of the United Fuel Gas Company was as of December 31, 1928?

A. Yes, sir.

Q. And the appraisal in this case is as of December 31, 1929?

A. Yes, sir, that is correct. And we ascertained from Trade Journals, jobbers, pipe manufacturers, that there were no differences in pipe prices between the two dates. As a matter of fact, if any difference should exist, the prices for the Ohio Fuel Gas pipe should be lower than the

4334

[fol. 1290] prices for the United Fuel Gas pipe, due to their being so much larger in quantity. There is a great deal greater quantity in the Ohio Fuel Gas inventory than there is in the United Fuel Gas inventory.

These differences are summarized on Page 2 of accounts according to the uniform classification of accounts, the first entry under each account being the difference in pipe cost alone before the application of any direct overheads; the second being the overhead on the pipe as applied by Ford, Bacon & Davis; the third figure, for instance, under field line equipment, is allowance for fittings and valves, which is a function of the pipe cost, so that if the pipe cost was reduced, the allowance for pipe fittings and valves would necessarily be reduced; the fourth figure is the direct overheads included in the fittings and valves.

Q. Now, either—go ahead. I did not want to interrupt you there.

A. This total difference by accounts is summarized at the bottom of the sheets, making a grand total.

Mr. Turner: Wait a minute, I want, when the question is asked developing the difference, to have an objection. And I was waiting for Mr. Davies' question to develop that. I did not want Mr. Blundon to go ahead and answer that without my objection being in.

Commissioner Bricker: The objection may be noted and the exception shown in the record.

Mr. Turner: I would like to state my reason.

Commissioner Bricker: All right.

Mr. Turner: There is no showing here, so far as I can see, that the pipe is the same kind of pipe, that is, bought from the same people. I am sure there is a difference in

4335

[fol. 1291] price between that paid by the Ohio Fuel Gas Company and that paid by the United, and that is what Ford, Bacon & Davis based their appraisal on, so that that is the basis of my objection.

The Witness: The total difference in account pipe price shown at the bottom of Page 2 amounts to $1,546,518.00.

Q. Now, Mr. Blundon, referring back to Account 214 and to the third item $34,147.00, pipe fittings, valves and so forth, will you explain that just a little bit more in detail?

A. Under the method of preparation of the appraisal of Ford, Bacon & Davis of the Ohio Fuel Gas property, fittings and valves are included as a per cent of the bare pipe cost. And so if the pipe cost is reduced in dollars, the allowance for fittings and valves would be reduced in dollars. The

item following that is the direct overheads which they allowed for fittings and valves.

Mr. Turner: Mr. Davies, I do not take it that Mr. Blundon is challenging that method of appraisal.

Mr. Davies: Oh, no, he is showing the difference.

Mr. Turner: But he is not challenging the method of appraisal.

Q. You are not challenging the method?

A. No, sir, I might state here, in preparing this study, I used figures of Ford, Bacon & Davis and of other people, which are in this record, and because I have used them, I do not want it necessarily to be taken that I agreed with them, but we have used them for the purposes of preparing this study.

Mr. Turner: But I was trying to develop from Mr. Davies whether or not there was a criticism of the use of four and one-half per cent for overhead on the pipe, for in-

4336

[fol. 1292] stance, or that method of getting at it, or the method of getting at the fittings.

The Witness: I am not prepared to say.

Mr. Davies: He is only developing the difference between the two inventories.

Mr. Turner: That is all I want, as long as we get that clear.

Commissioner Bricker: It is upon pipe cost.

Mr. Davies: Yes, based upon pipe cost.

The Witness: The detail of the preparation of the summary is shown on Pages 4, 5 and 6, Pipe prices, casing prices, tubing prices, were only compared where the identical sizes and weights occurred in the two inventories. In other words, this is not a comparison on the total price in the Ohio Fuel Gas System, but the comparison was limited to where they could be made on identical items of property.

Mr. Turner: Pardon the interruption. Do I understand that he means by identical items of property, the same kind of pipe, the same make of pipe, or simply the same size of pipe?

Mr. Davies: Answer that question.

The Witness: The same size and weight.

Mr. Turner: But not necessarily make.

The Witness: Not necessarily make.

Q. The same size and weight of pipe?
A. Yes, sir.

Commissioner Bricker: Did you make any examination to ascertain whether or not it was of the same make?

The Witness: It is the same make as to being steel, but not put out by the same manufacturing company.

Commissioner Bricker: There is no question as to his

4337

[fol. 1293] answer as to being steel or cast iron or wrought iron?

Mr. Turner: I don't know. We have just gotten this.

The Witness: The comparison was made only on the steel pipe.

Mr. Turner: Only on the steel pipe?

The Witness: Only on the steel pipe.

Mr. Turner: This exhibit is limited entirely to steel pipe?

The Witness: Steel pipe, yes, sir,

Mr. Turner: All right.

Q. All right, take page 4 and explain Page 4 in detail if you will; and that applies, if I understand it, for the two following pages?

A. Yes, sir.

The first column at the left of the sheet is the diameter of the pipe, the casing and tubing in inches.

In the second column, the description.

In the third column, weight in pounds per foot.

In the fourth column, is the length contained in the Ohio Fuel Gas Inventory. The fifth column is the prices contained in the Ohio Fuel Gas Company inventory per foot delivered and including .00185 dollars per pound.

Q. For freight?

A. For freight.

The sixth column is the price used by Ford, Bacon & Davis in the United Fuel Gas appraisal after an adjustment to the same freight rate.

The seventh column is the total delivered cost of the pipe, being the multiplication of Columns 4 and 5.

The eighth column is what the total delivered cost of pipe would have been if the pipe prices that were used in the

4338

[fol. 1294] United Fuel Gas Case had been used in The Ohio Fuel Gas case, and is the multiplication of Columns 4 and 6.

Pages 5 and 6 are prepared in the same way.

Q. On what basis, if you know, are the United Fuel Gas Company inventories prepared on pipe prices?

A. The testimony of Ford, Bacon & Davis in that case, which is in this record, was in effect that they were the pipe prices that the United Fuel Gas Company was paying at that time. In other words, they were the actual pipe prices from the inventory and not quotations.

Q. Did you explain page 3 on Exhibit Number 74 of this subject?

A. Page 3 is a comparison of the pipe costs alone, without the direct overheads of the allowances for fittings and valves, or the direct overheads on fittings and valves.

Q. What property did you eliminate as not used or useful?

Mr. Turner: I object. The witness has not been qualified to answer that question.

Q. Mr. Blundon, did you make an inspection trip to Sugar Grove and Wheeler's Station?

A. I did.

Q. And Treat?

A. Yes, sir.

Q. On Page 7 you eliminate an old boiler room and shop, compressing station structure; did you make a personal inspection of that particular piece of property?

A. I did.

Q. And as the result of that inspection, you have eliminated that particular piece as not used and useful.

Question objected to by the Columbus Gas & Fuel Company.

Commissioner Bricker: Let us find out if he has.

A. I have made such an inspection and in my opinion, it

4339

[fol. 1295] is not——

Mr. Turner: No, no. Wait a minute.

Mr. Davies: I wanted his opinion.

Mr. Turner: He lost the question, Mr. Davies.

Commissioner Bricker: He lost the question. The question was, "Did you eliminate it?"

The Witness: I did.

Q. Did you do that on your judgment as an engineer?

A. I did.

Q. What was the amount of that particular piece of property under Account 221 that you eliminated on that basis?

Mr. Turner: I object on the ground of qualification. He has not shown any experience in the gas business at all, none whatsoever. It was a long and formidable array of experience here that could not be questioned in his line. I am not questioning that. I did not question it on the comparisons between pipe prices here. But when it comes to the operation of a utility——

Mr. Davies: It is not the operation.

Mr. Turner: Yes, it is the operation. It is a question of what is used and useful. This is not the man to say that, or at least, he has not yet shown the qualification to say it. Merely being an engineer is not sufficient.

Commissioner Bricker: Let the witness answer and then cross-examine him and bring that out later.

The Witness: May I have the question, again, please?

(Question read.)

A: As estimated by Ford, Bacon & Davis, cost new $13,513.00, less depreciation, $8,783.00.

4340

[fol. 1296] Mr. Turner: May we have an agreement, gentlemen, that to such questions as this, we have our objection and the overruling and the exception, and a motion to strike, with the same rulings?

Commissioner Bricker: The record may show that.

Mr. Turner: So that we may preserve that exception?

Commissioner Bricker: Yes is this particular building about which you are talking actually used by the company—at the time?

The Witness: No, sir.

Commissioner Bricker: Abandoned?

The Witness: Yes, sir, the windows were all out of it. The doors were out of it. It was in an abandoned shape.

Commissioner Bricker: Nothing in it at all?

The Witness: I didn't see anything in it. I was all around it. I made a complete circuit of it.

Commissioner Bricker: Then in your judgment it was not used as well as not useful?

The Witness: Yes, sir.

Q. What experience, Mr. Blundon, have you had in the observation and study of gas plants as an engineer?

A. I have made a personal inspection of every compressor station of the United Fuel Gas Company, Monongahela-West Penn Gas Company, The State Line Gas Company, and have inspected all of their major items of property. I think that I have seen or did see every item of property of the United Fuel Gas Company, with cost of reproduction of as much as $1000.00.

Commissioner Bricker: Were you ever employed by any gas company in a managerial or operating capacity?

4341

[fol. 1297] The Witness: Not by a gas company, no, sir.

Q. Are we to understand by this statement here contained on Page 7 that this is in your opinion the only property of the Ohio Fuel Gas Company that is not used or useful contained in the inventory and appraisement?

A. No, sir.

Q. You simply took this one because in this inspection, you observed it?

A. I happened to see it. We only went to the three stations. I happened to notice this one station, and at the time we went to the three stations, we were not making a detailed inspection or study of the plant at all. We just visited the three stations.

Commissioner Bricker: Do you know whether this piece of property you have described here is included in the inventory and appraisal of the Ohio Fuel Gas?

The Witness: It is, and the detailed figures set out on Page 7 are copied from that inventory and appraisal.

Commissioner Bricker: From their exhibit?

The Witness: Yes, sir.

Commissioner Bricker: From their exhibit?

The Witness: Yes, sir.

Commissioner Bricker: You made no study to find whether there was other property similar to this that is included therein that would not be used and useful?

The Witness: Not that I could say outright, no, sir. It was probably forty wells that I could say in the present study were in the questionable class. We made a complete study of the wells for accrued depreciation, but did not go

into the matter of whether they were used and useful or not, because we did not have the time.

Q. What is the fact as to whether you were instructed by the attorneys for the study under the circumstances to

4342

[fol. 1298] accept and use the figures of the United Fuel Gas Company in those particulars, rather than to go out and make an inspection and conclusions with reference to their perhaps being used and useful.

A. I was so instructed.

Q. What study have you made of the general overhead charges that would be incurred in the reproduction of the Ohio Fuel Gas Company property?

A. I have made an estimate of the general overhead charges which would be incurred in the construction, reconstruction, of a property similar to the Ohio Fuel Gas property in accordance with the uniform classification of accounts prescribed by this Commission.

Q. What was the result of that study?

A. I estimate the cost of reproduction new of the so-called general overhead charges at 14 per cent of the physical property, excluding land:

Mr. Turner: Including, did you say?

The Witness: Excluding. And that might be subdivided as follows:

Organization——

Commissioner Bricker: On what page do you find that?

The Witness: That is not in this.

Organization, new, $780,026.00; less depreciation, $780,026.00

4343

[fol. 1299] Engineering and superintendence during construction, $1,950,064.00; less depreciation, $1,380,949.00.

General officers' and clerks' salary during construction, new, $624,021.00; less depreciation $441,904.00.

General officers' and clerk' expenses during construction, new $156,005.00; less depreciation, $110,476.00.

Office supplies and expenses during construction, new, $156,005.00; less depreciation $110,476.00.

Law expenditures during construction, new, $624,021.00; less depreciation, $441,904.00.

Injuries and damages during construction, new $312,010.00; less depreciation $220,952.00.

Insurance during construction, $156,005.00; less depreciation $110,476.00.

Taxes during construction, new, $312,010.00; less depreciation $220,952.00.

Interest during construction, new, $4,680,154.00; less depreciation $3,314,277.00.

Other expenditures during construction, new, $1,170,038.00; less depreciation $828,570.00.

Making a grand total new of $10,920,359.00; less depreciation $7,960,962.00.

For the purpose of giving these figures new and depreciated, we used the per cent. condition found by Ford, Bacon & Davis for all property, all physical property, except account 210, gas well construction, and 211, gas well equipment. These percentages were used, not because we thought they necessarily were correct, but to show the fact that we

4344

[fol. 1300] believe that the depreciation of all general overheads except organization should be depreciated in accordance to the depreciation of the physical property.

Q. And you accepted and used the figures of Ford, Bacon & Davis except in those two particulars, gas well construction and gas well equipment?

A. The figures on depreciation?

Q. Yes.

A. Exactly in those two particulars, yes.

4381

[fol. 1301] Q. I hand you that for purposes of identification has been marked as City Exhibit No. 75, entitled "The Ohio Fuel Gas Company determination of city gate rate for natural gas at Columbus, using Company's reproduction cost, operating expenses, adjusted and allocated to the service of Columbus, based upon a net return of 6, 6½ and 7 per cent, including taxes", and ask you if that is the study you have made up on that basis?

A. It is.

4402

[fol. 1302] Mr. Davies: We desire to offer now City's Exhibits Nos. 74 and 75.

4403

[fol. 1303] Mr. Turner: Objection to each of them. The witness has not shown competency, and besides they contain matters that are wholly immaterial and prejudicial.

Commissioner Geiger: Objection is overruled and exceptions noted.

Mr. Turner: Motion to strike each one of them separately.

Commissioner Geiger: Overruled.

Mr. Turner: Exception.

And thereupon the paper writings above offered were introduced and admitted in evidence on behalf of the City of Columbus, and are herewith submitted, marked City's Exhibits Nos. 74 and 75.

4429

[fol. 1304] Q. Ford, Bacon & Davis took the actual prices for pipe in their united appraisal, did they not?

A. That was their testimony.

4430

[fol. 1305] Q. I mean the actual prices paid by the company?

A. I understood their testimony that way.

Q. And did you understand that in this case they took the actual prices that the company here paid?

A. I didn't understand any definite statement to that effect. I think volume 1 of their exhibit——

Q. Page 14, are you looking now, of Exhibit 45?

A. Yes, sir. It shows that the material prices used are those at which the company was able to purchase material in large quantities on or about the date of the valuation or quotations secured from representative manufacturers as of the date of the valuation.

Q. Yes.

A. And inasmuch as the pipe prices that were used checked with the quotations which were introduced in connection with the Columbus Gas & Fuel, it may be that they based theirs here on quotations, I don't know.

Q. Look at page 17 of that same exhibit. Do you find this there: "The material prices used for casing, tubing and closing-in-equipment are the prices actually paid by the company during the year 1929"?

A. You have quoted it correctly.

Q. Now, did you go and examine the prices paid by the Ohio Fuel Gas Company for pipe in the year 1929?

A. No, sir, but I can——

Q. Wouldn't that have something to do with it?

A. No, sir, I don't think so, in view of the prices I got in the United Fuel Gas and the pipe prices they used in the United Fuel Gas.

5922

[fol. 1306] ALLENSWORTH, redirect examination:

Q. Mr. Seyffert states in his rebuttal testimony, Mr. Allensworth, that in City's Exhibit Number 70, and particularly at Page 1 of that exhibit, that there is included on that page the item natural gas purchased in the amount of 117,545 M. c. f., natural gas sold by the Northwestern Gas Company to the Logan Gas Company, and states that this amount should not have been included in the statement of gas purchased. Have you made an inquiry relative to the truth of that statement?

A. I have. The amount included for this item in City's Exhibit Number 70 is $58,772.50. This amount is included in error. It should be noted, however, that in his testimony relative to this amount included in City's Exhibit Number 70, Seyffert's statement of 49,028 M. c. f., amounting to 38,422.61, should be eliminated as incorrect.

Q. Why is that statement incorrect, Mr. Allensworth, if you are making the correction?

A. Had the Northwestern Gas Company's property been constituted throughout the year 1929, as it was on December 31st, 1929, and had the Ohio Fuel Gas Company's property included the property of the Logan Gas & Fuel Company throughout the year 1929, as *id* did as of December 31st, 1929, the Northwestern Company should not have sold any gas to the Ohio Fuel Gas Company for delivery to the lines of the Logan Gas Company. Certainly, the Ohio Fuel Gas Company under such circumstances should have supplied this amount of gas from its own gas resources instead of selling it to the Northwestern Company only for the purpose of buying it back from the Northwestern Company for delivery to its own lines, those formerly of the Logan Gas Company. In other words, in

5923

[fol. 1307] these circumstances gas purchased by the Northwestern Company from the Ohio Fuel Gas Company would have been less by 117,545 M. c. f. than otherwise. The item "natural gas purchased" revealed on Page 1 in City's Exhibit Number 70 in the amount of $7,160,203.21, including $58,772.50, the amount paid by the Logan Company to the Northwestern Company for this 117,545 M. c. f. of natural gas, which $58,772.50 should be eliminated from this item, with a like reduction in subsequent totals.

Q. Have you made that correction?

A. Yes.

Q. And what effect will it have?

A. Referring to Page 1 of City's Exhibit Number 70, as a result of this correction, the amount opposite the item natural gas purchased, that is, the amount $7,160,203.21 becomes $7,101,430.71. The amount opposite the item "Total production expense", including cost of purchased gas, that is, the amount $9,158,797.98, becomes $9,100,025.48.

Referring to Page 2 of this Exhibit, the amount appearing opposite the item "Total transmission expense", that is, the amount $2,169,414.45, remains unchanged.

Referring to Page 3 of this exhibit, the amount appearing opposite the item "Total distribution expense", that is, the amount $2,485,712.82, remains unchanged.

Referring to Page 4 of this exhibit, the amount opposite the title, "Total general expense" that is, the amount in parenthesis, $1,029,774.31, remains unchanged, and the amount opposite the title "Total operating expenses prior to depreciation, amortization and taxes," becomes $12,665,378.44.

Q. What is the correct amount of revenue gas sales then

5924

[fol. 1308] for the Ohio Fuel Gas Company for the year ending December 31, 1929?

A. The books of the Ohio Fuel Gas Company and Company Seyffert Exhibit Number 44 reveal for the item "Gas sold during 1929" by the property of the Ohio Fuel Gas Company as constitutes December 31st, 1929, the amount 51,502,659 M. c. f. The company claims that this amount is over-stated in the amount of 333,675.7 M. c. f., which excess is claimed to have resulted from a change in accounting practice during November, 1929, as has been here-

tofore explained in my testimony. Deducting that amount of excess from the total shown by the company's records, and reported in Company Seyffert Exhibit 44 produces for net revenue gas sales the amount 51,168,984 M. c. f., which figure is at least more accurate than the corresponding figure for this item revealed in Company Seyffert Exhibit Number 44.

Q. Mr. Seyffert, in rebuttal testimony, directed attention to the item "Unaccounted for gas in distribution of the Ohio Fuel Gas Company retail sales," which he said amounted to 1,627,179.4 M. c. f. Have you investigated the correctness of that figure?

A. That is not correct.

Q. What is the correct figure as you found it?

A. This figure, that is, the figure you recited, namely, 1,627,179.4 M. c. f., includes 28,829.2 M. c. f. of gas claimed to be unaccounted for in determination of the excess of 338,675.7 M. c. f. Accordingly the correct amount of alleged unaccounted for gas in distribution would be 1,598,340.2 M. c. f.

Q. I have only one more question. Mr. Allensworth, what have you to say as to the propriety of including for consideration gas used in the distribution operations of

5925

[fol. 1309] the Ohio Fuel Gas Company?

A. Mr. Seyffert in rebuttal testimony, erroneously criticized the city's inclusion of gas used in operation of distribution property of the Ohio Fuel Gas Company.

Commissioner Geiger: A little louder, Mr. Allensworth. There is a lot of noise in here.

The Witness: The gas delivered to the city gate measuring stations at Columbus, that is, the amount 9,279,604 M. c. f. includes gas used in the operations of the Columbus Distribution plants. In order to determine the true ratio of the amount of gas delivered to city gate measuring stations at Columbus, that is, the amount I just mentioned, to the total gas delivered to the city gate measuring stations through the Ohio Fuel Gas Company's system, it is necessary to provide for the gas used in operations by the Ohio Fuel Gas Company's distribution plants. The exclusion of gas used in operations of Ohio Fuel Gas Company's distribution plants, the amount being 768,588 M c. f., from the total Ohio Fuel Gas deliveries to city gate measuring sta-

tions would result in a distorted and inaccurate ratio. Accordingly, deliveries to city gate measuring stations during the year 1929 by the Ohio Fuel Gas Company's property as constituted December 31st, 1929, is determined by adding to net total sales, that is, the amount 51,168,984 M. c. f., the alleged net losses in the Ohio Fuel Gas distribution property, that is, the amount 15,983,040.2 M. c. f. gas used by the Ohio Fuel Gas Company in operating its distribution property, 768,588 M. c. f. and municipal free gas supplied by the Ohio Fuel Gas Company through its distribution property, the amount 43,662.9 M. c. f., which 5926

[fols. 1310 & 1311] amount produces total city gate measuring deliveries in the amount of 53,579,575.1 M. c. f. Furthermore, gas used in construction operations as distinguished from gas used in other operations must be included as part of the basic before determination of the ratio. Accordingly, 528,510 M. c. f. accounted for by the Ohio Fuel Gas Company as used in well drilling operations in 1929, should be added to city gate measuring deliveries, that is, the amount 53,579,575.1 M. c. f., producing a total of 54,018,085.1 M. c. f. total gas deliveries, comparable to the 9,279,605 M. c. f. delivered to city gate measuring stations at Columbus.

Mr. Huffman: You may cross-examine.

Mr. Turner: If the Commission please, under our understanding, we had an objection, the objection overruled and an exception to each of the questions. Now, we make separately to each of the answers a motion to strike.

Commissioner Bricker: Motion overruled and exception noted.

And thereupon the Columbus Gas & Fuel Company excepted to the above ruling of the Commission.

By Mr. Turner;

Q. You are the same Mr. Allensworth who has heretofore testified in this case?

A. Yes, sir.

[fol. 1312] Date of Return

1204

[fol. 1313] B. L. WHEELER further testified:

By Mr. Turner:

Q. I want to ask you a question on another line now for the purpose of establishing the return. Do you know anything about an offering by a company known as 40 Wall Street Corporation in the fall of 1929?

A. In a general way, yes, sir.

Q. Tell us in a general way what that covered?

Mr. Butler: Well, if the gentleman has real information that he knows, that is one thing.

Q. I will ask you, were you ever on Wall Street in New York?

A. Yes, sir.

Q. And do you know where 40 Wall Street is?

A. Yes, sir.

Mr. Butler: One could tell that from his testimony, Mr. Turner.

Q. And what sort of a building, if any, is on the premises?

A. There is a new building known as Bank of Manhattan Trust Company, about 70 stories high, built within the last two or three years.

Q. Occupied by whom?

1205

[fol. 1314] A. A large part of it by the Bank of Manhattan Trust Company, and the rest of it as an office building by many occupants.

Q. Do you know whether or not there was a bond issue put upon that building?

A. Yes, sir, I do.

Q. Do you know whether or not bonds were sold?

A. Yes, sir.

Q. Do you know the price at which the bonds were sold?

A. I know the price at which they were offered as a public offering.

Q. What were they offered at as a public offering?

A. At 96½.

Q. What was the rate of interest that they carried?

A. Six per cent.

Q. With reference to Williams Street where is 40 Wall Street?

A. About one-half block.

Q. And with reference to the United States Treasury building where is 40 Wall Street?

A. Adjacent—adjoining, rather.

Chairman Geiger: Right across the street from Morgan?

The Witness: Yes, sir.

1207

[fol. 1315] Cross-examination of Mr. Wheeler.

By Mr. Butler:

Q. Real estate securities have not been so good the last few years, have they, Mr. Wheeler?

A. That is a pretty broad question.

Q. I know it is broad, but you are an expert.

A. Probably not.

Q. Oh, well, don't you know that they have not?

1208

[fol. 1316] A. In a general way, yes. I do not know whether you are confining it to New York or Columbus or the whole country.

Q. Well, what are you talking about—New York or Columbus?

A. So far I have just testified on one specific bond in New York.

Q. There seems to be some doubt in your mind whether that applies to Columbus or not?

A. I am not personally familiar with Columbus real estate.

1259

[fol. 1317] Q. By the way, I had this little interesting notice laid on my desk and I want to read it to you and ask you whether it is a fair statement of conditions as to rate and yield: "Columbus Gas Electric Corporation, five percent Gold debentures, due 1961; this company supplies gas and electric service to more than 1200 communities in Ohio, Pennsylvania, New York, West Virginia, Maryland, Kentucky and Indiana or more than 1,300,000 actual customers. For the twelve months ended November 30, 1930,

1260

[fol. 1318] earnings available for interest charges were

$30,417,442.00 against charges of $6,025,985.00. These bonds have a prior claim on assets and earnings over the Company's common and preferred stocks which have at present prices a market value of more than five million dollars. Price 98, to yield over 5.13 percent."

1356

[fol. 1319] Mr. Turner: There is one thing here, I just want to show along the same line and I do not want to take the stand. I asked about those Manhattan bonds, I want to show they sold in Columbus at 96½.

Mr. Butler: You mean sold to the dealer or sold to the public? What they were put out for to the public?

Mr. Turner: No, this is a bill from Freeman for them.

Mr. Butler: Oh, you bought them?

Chairman Geiger: You better look out there may be a tax gatherer around.

Mr. Turner: I met tax gatherers before.

Mr. Butler: You need not put this in the record. We are not objecting to it, you being the attorney over there.

Mr. Turner: I have been attorney for the client and so have you.

Mr. Butler: We have both been attorneys for the same banks.

Mr. Turner: May we show that forty Wall Street bonds, first sixes November 1st, 1958, sold in Columbus on January 17, 1930, at 96½. Is that correct, Mr. Butler?

Mr. Butler: Do you consider those very well secured?

Mr. Turner: First mortgage on the finest piece of business property in the United States, bar none. That is what I think of them. Outside of that, they are very good.

1357

Chairman Geiger: What would you be willing to sell them for now?

Mr. Turner: They are not for sale because I don't know where I could get six per cent. or six and a half per cent.—I am taking less than three from the government—about three from the government.

1331

[fol. 1320] And also—

Warren S. Park, called on behalf of the Columbus Gas & Fuel Company, being first duly sworn, testified as follows:

Examined by Mr. Turner:

Q. Your name is Warren S. Park?

A. Yes, sir.

Q. You are Secretary of the Central Building, Loan & Savings Company?

A. Yes, sir.

Q. Mr. Park, you were subpoened to bring with you a statement of the amount of loans outstanding on first mortgage real estate as of December 31, 1929, and the rate of interest; have you done that?

A. Yes, sir.

Q. How much did you have outstanding at that time?

A. $3,150,173.12.

Q. What was the interest?

A. 6 and 6½.

Q. I should have asked you; the Central Building, Loan & Savings Company is located here in Columbus, Ohio?

A. Yes, sir.

Q. And those are loans on Franklin County Real Estate?

A. Yes, sir.

Mr. Turner: All right, that is all.

1332

[fol. 1321] Cross-examination.

By Mr. Butler:

Q. What has been the tendency as to rates since that time, to go higher or go lower?

A. Prior to July, 1922, our rate was 6 per cent. July 1st, 1922, our rate was increased to 6½ per cent.

Q. Since December 31, 1929, what has the tendency been, down to date, if any, to generally a lower or higher interest rate?

A. Our rate has remained the same.

Q. How much money did you have deposited on that day with the Building and Loan?

A. In deposits, we had $3,027,967.19.

Q. And what rate of interest did you pay thereon?

A. 5 per cent.

Q. Those deposits are subject to taxation as against the depositors, are they not, under the law?

A. Yes, sir.

Redirect examination.

By Mr. Turner:

Q. Any different from any other mortgage that you ever heard of, Mr. Park?

A. The question?

Q. Are they any different in respect of taxation than any other deposits any place so far as taxes are concerned?

A. I don't think so.

Q. All deposits?

A. (No response.)

Mr. Turner: All right.

1333

[fol. 1322] And also—

C. C. GUTHRIE, called on behalf of the Columbus Gas & Fuel Company, being first duly sworn, testified as follows:

Examined by Mr. Turner:

Q. Your name is C. C. Guthrie, G-u-t-h-r-i-e?

A. Yes, sir.

Q. What is your position with the Buckeye State Building & Loan Company?

A. Cashier and Vice President.

Q. The Buckeye State Building & Loan Company located here in Columbus?

A. Yes, sir.

Q. You were subpoenaed to bring with you——

Mr. Butler: Mr. Park, don't go away, I may want to ask you a question.

Mr. Turner: In order to save time, I will stop, and you ask him right now. He is over there alone, and that is the reason I put him on first.

Mr. Butler: Right there, where you are: How are your loans secured—on homes, largely?

Mr. Park: Largely by first mortgage on homes.

Mr. Butler: What would be the average amount?

Mr. Park: $2700.00.

Mr. Butler: In Columbus, Ohio, and Franklin County?

Mr. Park: Yes, sir.

Mr. Butler: That is all.

By Mr. Turner:

Q. My last question to Mr. Guthrie, then was, the Buckeye State Building & Loan Company here located in Columbus, Ohio?

A. (By Mr. Guthrie:) Yes, sir.

1334

[fol. 1323] Q. Engaged in the business of loaning money on real estate?

A. Yes, sir.

Q. You were subpoenaed to bring with you a statement of the amount of loans outstanding as of December 31, 1929, and the rate of interest thereon?

A. Yes, sir.

Q. Have you done that?

A. Yes, sir.

Q. What is the amount and rate of interest?

A. The amount of the first mortgage loans is $43,300,808.78.

Q. And what is the rate of interest?

A. 6 per cent.

Q. First mortgage?

A. First mortgage loans.

Q. On real estate in Columbus and Franklin County?

A. No, sir, that——

Q. All right, tell me where it is?

A. That sum represents our total first mortgage loans, Mr. Turner. I was not asked to separate that.

Q. Could you tell me roughly how much?

A. I would say $2,000,000.00 of that is outside of Franklin County.

Q. And the rest in?

A. Yes, sir.

Mr. Turner: All right, you may cross-examine.

Cross-examination.

By Mr. Butler:

Q. About 41 million here and 2 million outside of Franklin County?

A. That is approximately correct.

Q. You loan largely on homes?

A. Yes, sir.

Q. And what is the average amount of your loans?
A. 3200.
Q. 3200. And what per cent. did you pay on your deposits?

1335

[fol. 1324] A. 5 per cent.
Q. And what was the amount of your deposits?
A. $40,048,525.93.
Q. What has been, if at all, the tendency during the last year as to higher or lower interest rates?
A. We are paying the same now as before, as this time.
Q. I am not asking that; I am speaking generally, Mr. Guthrie.
A. With reference to our company, Mr. Butler?
Q. No, with reference generally to interest rates. If you don't know, why——
A. I would say slightly lower.
Q. Slightly lower. All right, that is all.
A. (No response.)

Redirect examination.

By Mr. Turner:

Q. Are you getting the same amount now in interest that you did before—6 per cent?
A. Yes, sir.

Mr. Turner: All right.

1336

[fol. 1325] And also—

J. F. Nitschke, called on behalf of the Columbus Gas & Fuel Company, being first duly sworn, testified as follows:

Examined by Mr. Turner:

Q. Mr. Nitschke, state your name?
A. J. F. Nitschke.
Q. And you are Assistant Secretary of the Scioto Building & Loan Company?
A. Yes, sir.
Q. That is located here in Columbus, Ohio?
A. Yes, sir.

Q. Loans money on first mortgage real estate here in Columbus?

A. First Mortgage, yes, sir.

Q. How much did you have outstanding at December 31, 1929, on real estate?

A. $3,403,976.57.

Q. At what rate of interest?

A. At 7 per cent.

Q. That was on first mortgage?

A. First mortgage real estate.

Mr. Turner: That is all.

Cross-examination.

By Mr. Butler:

Q. What rate of interest did you pay on your deposits?

A. 6 per cent—6 per cent on time and 5 per cent. on savings.

Q. 6 per cent. on time you say?

A. Yes, sir.

Q. By the way, on those deposits, under the Building & Loan Law, when the payment is demanded, can you take time on them?

A. No—the time is supposed to run for at least 6 months; if withdrawn before that, as a rule, you lose your interest.

1337

[fol. 1326] Q. Yes.

A. There is some variation to that, though.

Q. But roughly, that is the general method? Well, what about the right of a Building and Loan to postpone the payment when demands are made?

A. Well, I don't know, there may be—I believe there is some ruling as to that.

Q. And you can postpone that, can you, take a certain length of time?

A. I think so.

Q. Do you know how long?

A. No, I don't; I do not remember.

Q. Well, isn't that a little factor in appraising their value?

A. Appraising the value of what?

Q. Of these certificates of deposit?

A. Well, don't know as to that.

Q. I am asking for your judgment about it?
A. No, I don't think so.
Q. You don't?
A. No, for they are always paid on demand.
Q. I am not asking, Mr. Nitschke, what you have always done; I am asking what can be done under your system of deposit?
A. Well, it can be done, can postpone payment.
Q. Yes, and they can be filed and then paid in the order?
A. I believe there is some such ruling.
Q. You loan on homes; don't you, largely, almost wholly?
A. Almost entirely.
Q. I suppose like the other Building and Loans, you finance a good many construction of homes, don't you?
A. Yes, sir.
Q. That is about what the Building and Loan means, isn't it,—originally at least?
A. That is what it is for.

1338

[fol. 1327] Q. What do your loans average?
A. You mean the amount?
Q. The amount, the average amount?
A. Oh, I think 26-27 hundred.

Mr. Butler: That is all.
Chairman Geiger: Do you charge the same rate of interest when you loan on the passbook?
The Witness: When we loan on the passbook?
Chairman Geiger: Yes, when you lend on a passbook?
The Witness: Oh, no, we charge 6 per cent.
Chairman Geiger: 6 per cent?
The Witness: Yes, sir.

1339

[fol. 1328] And also —

U. D. Zinn called on behalf of the Columbus Gas & Fuel Company, being first duly sworn, testified as follows:

Examined by Mr. Turner:

Q. State your name, Mr. Zinn?
A. U. D. Zinn.
Q. What is your position?
A. I am Assistant Secretary of the Ohio State Savings Association.

Q. Are you located here in Columbus, Ohio?
A. Yes, sir.
Q. Engaged in loaning money on real estate?
A. Yes, sir.
Q. First mortgage?
A. Yes, sir.
Q. You were asked to bring with you the amount of loans outstanding on the 31st day of December, 1929, and the rate; will you kindly give that?
A. $8,259,845.49.
Q. And the rate of interest?
A. The rate of interest on that is on part 6 per cent., on part 6½.
Q. Have you the amount outstanding at 6½?
A. $600,000.00.

Mr. Turner: All right, cross-examine.

Cross-examination.

By Mr. Butler:

Q. $600,000.00 of the loans that have been made recently, the 6½ per cent.?
A. No. Our loans prior to September 23, 1929, draw 6 per cent. interest. Those loans still draw 6 per cent. interest. Beginning September 23, 1929, we increased the rate to 6½. $600,000.00 means the amount that we loaned after September 23, 1929, up to December 31.

1340

[fol. 1329] Q. What do you pay for your deposits?
A. We pay four and five per cent.
Q. Why, four and five; just explain?
A. We have a savings account system where we accommodate small deposits on which we pay 4 per cent. compounded quarterly. The bulk of our deposits draw 5 per cent., payable semi-annually.
Q. What about withdrawals? Is interest computed right up to the time of the withdrawal or must they withdraw on the semi-annual periods to get full interest?
A. On the 4 per cent. accounts, interest is payable quarterly, January, April, July and October.
On the 5 per cent. accounts, interest is payable semi-annually from the date of deposit.

Q. And if you withdraw a deposit before the expiration of a semi-annual period, you lose the interest for that period.

A. No interest for that period.

Q. And on those savings deposits at 4 per cent., money deposited during the quarter does not begin to draw interest until the next quarter?

A. At the beginning of the next quarter.

Q. I imagine you loan on homes very largely?

A. Yes, sir.

Q. Like the others?

A. Yes.

Q. What is your average loan?

A. Estimating from memory; I didn't figure that before I left the office—it would be $3600.00.

Q. I imagine that you do much financing of new homes, too, don't you?

A. Yes, sir.

Q. That means that you make a loan and hold the money

1341

[fol. 1330] and pay it out as against the work as it proceeds?

A. Yes, on construction work.

Mr. Butler: That is all.

Redirect examination.

By Mr. Turner:

Q. On construction loans, the interest begins from when?

A. On loans of 12 to 15 thousand—less than that amount, interest begins on the first withdrawal made.

Q. On the first withdrawal, and it carries the interest for the entire loans?

A. Yes.

Q. From that time the money is set aside and you charge him interest although it is not paid out, that is correct isn't it?

A. Yes.

Mr. Turner: All right.

Recross-examination.

By Mr. Butler:

Q. Is that a general rule of the Building and Loans in this city?

A. I wouldn't say that is general. I gave that amount, because we have made some loans of 20, 22 thousand. In those cases, we divide that amount, say in two installments and charge interest as used.

Q. Well, aren't there many loans made by Building and Loans where they hold the fund and begin to charge as they pay the money out?

A. Oh, yes, on the smaller loans.

Q. Oh, that is true of the smaller loans?

A. On the smaller loans.

1342

[fol. 1331] Q. Well, which do you have, bigger loans or smaller loans?

A. We have both.

Q. In what proportion?

A. Well, the bulk of our money is smaller loans, of course.

Mr. Butler: Yes, that is all.

1343

[fol. 1332] And also—

H. W. Cly, called on behalf of the Columbus Gas & Fuel Company, being first duly sworn, testified as follows:

Examined by Mr. Turner:

Q. State your name, Mr. Cly?

A. H. W. Cly.

Q. You are with the Columbian Building & Loan Company of this city?

A. Yes, sir.

Q. Is that company engaged in loaning money on first mortgage on real estate?

A. Yes, sir.

Q. You were asked to bring with you the amount of loans outstanding at December 31, 1929, and the rate of interest. Have you done so?

A. Yes, sir.

Q. Please give the amount and rate?

A. $29,837,288.33.

Q. And the rate of interest?

A. 7 per cent.

Q. Those loans made here in Columbus, were they?

A. Why, about a million of them are outside of Franklin County.

Cross-examination.

By Mr. Butler:

Q. How is that?

A. About a million dollars worth is outside of Franklin County.

Q. Practically on homes?

A. Yes, sir, the greater part of them.

Q. What is the average size of your loans on homes?

A. I would say around thirty-one fifty or thirty-two hundred.

Q. I fancy that, like the other building and loan com-

1344

[fol. 1333] panies, you finance considerable construction work?

A. Yes, sir.

Q. What is your method—you heard us discussing it a moment ago—do you begin to charge interest on the whole amount when the loan is granted or charged against the sums as they are paid out?

A. No; against the first amount at the beginning of the first withdrawal.

Q. For the whole amount?

A. Yes, sir.

Q. On big loans and little loans?

A. Well, there may be an exception there on a large loan, or a hundred thousand or fifty thousand, but they, of course are very, very few. I believe now in one instance there we had a loan of $75,000.00 and the first withdrawal did not come for a period of three months, and then it came $25,000.00, so we only charged them the interest on the twenty-five thousand at that time, and then of course, the next withdrawal, we started charging on up, but practically all of our loans——

Q. Has not that been true of a large number of your loans where you are financing construction?

A. Yes.

Q. That you charge against the first as they are paid up?

A. I would say very, very few of them. I can't recall offhand just how many, but there is not many of them.

Q. What do you pay for your money?

A. 6 per cent, 4 per cent savings and 6 per cent on time deposits.

Q. Have you a right under your certificates of deposit to withhold payment for a certain time?

A. Yes, sir, on the back of our certificates, we have a clause in there that gives us the right to hold up for the period of 60 days if necessary.

Q. And then pay in the order of presentation of demands?

1345

[fol. 1334] A. I presume that would be it.

Q. Yes.

A. I believe most certificates of Buliding and Loan Companies have that stipulation on the backs.

Q. I think that is practically uniform, isn't it?

A. You are right.

Q. Yes, that is what I am getting at?

A. Of course, that really has never been enforced, you understand, with the Columbian Building & Loan Company, but that is true.

Q. They still keep the aid?

A. Keep it.

Q. And yet that is not said in any animosity. I spent many, many years——

A. Perfectly right, your money is loaned out and comes in in small amounts.

Q. I think that is a wise provision. That is all. It certainly guards against foolish panic.

A. (No response.)

Q. And also, isn't it, practically uniform, over the city on those time deposits, that interest is lost if payment be taken between semi-annual periods?

A. Well, now, various Building and Loan Companies have a different policy. We have been in the past; we have sort of dropped that since the first of the year, of making the policy in this respect, that if a certificate has run for a period of three months or better and a customer comes to the window and says, "Well, am I to lose all of this interest", we will say to him, "No; we will make you what we call a collateral loan. You can borrow on the face of your certificate and pay us 1 per cent more or 7 per cent

in this case and at the end of your six months, or maturity, we will discount the interest then and send you a check for the amount that is coming to you. Now, some, I believe, have a different method, but that is our method if they

1346

[fol. 1335] insist on it.

Q. I am not talking about method, nearly as much as I am talking about the effect of the certificate itself; I think the Building and Loan people are the most accommodating people in the world. I think we all bear witness to that, but I am talking about the certificates that they give us. This that you speak of is simply a gracious favor?

A. Yes, sir.

Q. But the certificate provides that the Building and Loan Company elect it may forfeit the interest between the periods?

A. Yes, because it stipulates on the face of it that it must remain for a period of six months, and that is what we tell our people at the windows when they come in to get a new certificate.

Q. Didn't you have at one time—what shall I call it—I can not think of the name of it—a fluctuating rate?

A. That is what we are operating under now.

Q. A mortgage rate?

A. Yes, sir.

Q. That is as you can get money for more or less, your mortgage rate is more or less?

A. I might state on that that as long as we have operated under this rule of 6 per cent, since 1920, that only once have we used that rule, and that was from February, 1928, to February, 1929, we reduced our deposit rate to 5¼ and charged 5¾, and 6 per cent for loans, and that was only for a period of one year.

Q. But that provision is in all your loans?

A. Flexible clause.

Q. Yes—I couldn't think of that word?

A. Yes, sir.

Mr. Butler: Why didn't you tell me, Mr. Turner; you knew.

1347

[fol. 1336] But whether you used it or not, that is your right?

A. Yes, sir.

Mr. Butler: That is all.

Redirect examination.

By Mr. Turner:

Q. I do not like to ask this question, but Mr. Butler has asked the question and so I might as well ask it. Ins't it the practice of the Building and Loan Companies in this city for substantial amounts of money to agree on the face of the certificate to pay interest until withdrawal? I have them and I have read it.

A. I hesitate to answer for other Building and Loan Companies on that matter.

Q. Well, how about your own?

A. I may say that the preceding management has from time to time on a large deposit perhaps made that little stipulation, in fact, we did have at one time a stamp that we put on the face of our certificates that read like this: One per cent, one month; two per cent, two months; three per cent, three months; on down to six per cent, for six months, if left there, but that is not done in many cases; it wasn't given out to every Tom, Dick and Harry. That is only a case where Mr. Turner knows about.

By Mr. Butler:

Q. You don't consider Mr. Turner a "Tom, Dick and Harry"?

A. I think, he happens to know about it.

Mr. Turner: I would not ask the question only Butler bore down on those things. I know that it is done.

Mr. Butler: The record may show that we will concede

1348

[fol. 1337] that General Turner knows.

The Witness: That is not done now.

Mr. Butler: That is all.

Chairman Geiger: A borrower comes in and borrows on real estate; he contracts to pay you back in 144 payments usually, isn't it, that is, if he pays the monthly payment

for 144 payments, he will not only have paid his interest, but have paid his principal?

The Witness: Yes, sir; yes, sir; in other words, it is on the end——

Chairman Geiger: The interest you charge him on the sum does not decrease or his payment decrease as his amount borrowed decreases?

The Witness: Well, in that case, no. The amount which we charge as interest is based on the six months interest balance. In other words, if you would start today to make a loan, June 1st we charge you interest on the full amount of say $3,000.00. If you have paid three or four payments of $30.00 each up to July 1st, then starting July 1st, we would only charge you on that net difference.

Chairman Geiger: I see, but there is sometimes, the last amount borrowed from you, then they are paying interest on, you don't reduce it every time they pay back some money?

The Witness: Not monthly, just once every six months.

Chairman Geiger: Did you ever figure how much under that way they do pay for interest? They pay as a matter of fact, 8 or 9 per cent?

The Witness: I presume if you take interest and add it up, it would amount to more than that.

1349

[fol. 1338] Chairman Geiger: That is all.

The Witness: It is a question that is asked us once in a great while.

Redirect examination.

By Mr. Turner:

Q. Well, when you were talking about time certificates, the time certificates issued by the Building and Loan Companies in this city are six months?

A. Yes, sir.

Mr. Turner: That is all. I did not call them all, gentlemen, I just called a few.

1350

[fol. 1339] And also—

HAROLD C. GOCKENBACH, called on behalf of the Columbus Gas & Fuel Company, being first duly sworn, testified as follows:

Examined by Mr. Turner:

Q. Your name is Harold C. Gockenbach?

A. Yes, sir.

Q. You are Secretary of the Dollar Building & Loan Company of this city?

A. Yes, sir.

Q. You loan money on first mortgage on real estate?

A. Yes, sir.

Q. You were asked to bring with you the amount of loans outstanding on first mortgage on real estate as of December 31, 1929, and the rates of interest. Would you give those, please?

A. Yes, sir. We have loaned at 7 per cent $975,882.31.

Mr. Butler: What is that amount, I was not listening?

The Witness: $975,882.31. At 6½ per cent, $112,948.44; 6 per cent, $7,769.70, making a total of $1,096,600.45.

Mr. Turner: That is all.

Cross-examination.

By Mr. Butler:

Q. You are charging 7 per cent for your loans now?

A. Yes, sir.

Q. At the present time?

A. Yes, sir.

Q. Since when?

A. As long as I have been connected with the Company.

1351

[fol. 1340] Q. How long has that been?

A. It has been about three years.

Q. What do you pay for your deposits?

A. 5 per cent on all forms of deposit.

Q. Do you have stock?

A. Yes, sir.

Q. How much stock in your Building and Loan?

A. We have about practically $43,000.00 worth of stock.

Q. What dividends do you pay on that?

A. The same dividends as on deposits.

Q. What is that?

A. 5 per cent.

Mr. Butler: Mr. Turner, I want to show the stock that these various people had and the dividends they pay on their stock.

Mr. Turner: I don't object to your getting the information.

Mr. Butler: Can I get it and bring it in? I do not find you gentlemen have it here. (Referring to paper writing.)

Mr. Turner: No, I was not proving that, I was proving what money was worth here.

Mr. Butler: Well, 5 per cent on the outstanding stock of the Building and Loans is almost the uniform practice in this city, isn't it?

The Witness: It is, yes sir.

By Mr. Butler:

Q. What do your loans average, the amount of them?
A. Practically $2,200.00.
Q. You are confined almost wholly to homes, aren't you?
A. Exclusively to homes.
Q. Have you done much construction work?

1352

[fol. 1341] A. We have, yes, sir.
Q. All deposits 5 per cent in your Building and Loan?
A. Yes, sir.
Q. That has run ever since you have been there?
A. Yes, sir.

Redirect examination.

By Mr. Turner:

Q. Mr. Butler asked you about the Building and Loan Stock; Building and Loan Stock under the Ohio Law is not subject to taxation in any way, is it; it is specifically exempted?
A. Yes, sir.

By Mr. Butler:

Q. Does it have the double liability?
A. It has, yes, sir.

By Mr. Turner:

Q. And Mr. Butler asked you about what you paid to depositors, what is the fact as to whether you pay the 5 per cent on demand?
A. We do.

By Mr. Butler:

Q. What do your certificates of deposit provide?

A. Six months' time period, but our policy has been to pay 5 per cent on all forms of deposit from date of deposit to time of withdrawal.

Q. Is that policy written on the certificate?

A. It is not; it is just the policy.

Q. I am asking you for what the certificate shows. As a matter of fact, under your certificate you can take 60 days?

A. Yes, sir.

Q. And then pay them in the order that the demands for withdrawal are filed?

A. Yes, sir.

1353

[fol. 1342] By Mr. Turner:

Q. Of course, paying the interest for the 60 days, too?

A. Yes, sir.

Q. And don't you advertise, Mr. Gockenbach, that you pay 5 per cent. on demand?

A. Yes, sir.

Q. At time of withdrawal; that is correct, isn't it?

A. Yes, sir.

By Mr. Butler:

Q. Why don't you write your certificate that way?

A. Just a policy of the company.

Q. Well, why don't you write your certificate——

A. Well, I will have to take that matter up with the Board.

Mr. Turner: Jim, he isn't the only one who does that.

Q. Because it would not be prudence, would it, this policy of the Building and Loan requiring time is a prudent thing, isn't it?

A. The policy of a time certificate?

Q. Yes, and having the legal right?

A. Yes, sir.

Q. In case of panic and such?

A. Yes, sir.

Q. That is a prudent thing; you would not want to give it up, would you, as a prudent Building and Loan man?

A. No, sir.
Q. It is one of the safeguards, isn't it, of the business?
A. Yes, sir.

By Mr. Turner:

Q. But your certificates are six months certificates?
A. Yes, sir.
Q. And the longest you could keep the money would be eight months by exercising the option given you by law of deferring payment for 60 days?
A. Yes, sir.

Mr. Turner: That is all, Mr. Kessler.
Chairman Geiger: Couldn't you agree that you have others who would testify substantially the same thing?

1354

[fol. 1343] Mr. Turner: Yes——
Chairman Geiger: Testify substantially the same.
Mr. Turner: We do not want to encumber the record.
Chairman Geiger: I think that would be all right.
Mr. Turner: Sir?
Chairman Geiger: I imagine that would be agreeable though if you have other Building and Loan people here instead of taking time that they would testify substantially to the same thing.
Mr. Turner: Could you agree to that, Mr. Butler?
Mr. Butler: Yes, sure, I see no objection to that. I think there is no connection between this and what we are talking about, but we haven't any objection.
Chairman Geiger: Mr. Turner, right there, while we have this under consideration, could you tell me what this is all about and how it affects the case that we have before us to show the price of money in their homes in December 31, 1929.
Mr. Turner: That is what I am trying to show.
Chairman Geiger: All right.
Mr. Turner: Some of our prices of some of the money.
Chairman Geiger: All right.
Mr. Turner: And that is a good many million dollars, as to what people can invest in safe securities here. I thought that was material, but I have been wrong so often in this case I may be wrong again.

Chairman Geiger: Well, the only question would be whether it would be comparable to the situation of an underwriting bond house in New York, selling their certificates.

1355

[fol. 1344] Mr. Turner: Not at all comparable; not at all comparable. As showing what better securities pay, showing the competition for money, what better securities pay. Not at all comparable with gas securities, showing that for first mortgage on homes; on your home, they can get 7 per cent. That is the idea of this testimony.

Chairman Geiger: All right.

3711 and 3712

[fol. 1345] HARRY R. ALLENSWORTH further testified:

Q. Now, Mr. Allensworth, have you made an investigation and study of the average money rates for the month of December 1929, and for the interim between that time and the present time?

A. Yes, sir.

* * * * * * *

Q. Did your investigation and study include the New York money market?

A. Yes, sir.

Q. Do the money rates of the New York market govern commercial money pretty largely throughout the country?

A. Yes, sir, very much so.

3713 and 3714

[fol. 1346] Q. What, if you know, was the rate of call money for the month of December, 1929?

Mr. Turner: Objection.

Commissioner Geiger: Well, I should think that should be sustained on the ground that call money in New York is a very different thing from a proper return upon an investment. You might go back several years ago when call money in New York was 17 per cent. and even went to 24 per cent. on one day.

Mr. Huffman: Yes, but we are not contending that should be the rate for this Company; we are only saying that should be an element in arriving at a proper determination. We

would not contend that is a controlling factor; it is only a factor to be considered.

Commissioner Geiger: Objection sustained. Call money, we think, has nothing to do with the matter at hand. It might be possible that some more factors, proper investment and rate of interest trend of standard investments would be of some value.

Mr. Huffman: Note an exception, and let the record show that if the witness were permitted to answer he would say that call money in the New York market during the month of December, 1929, was 4.83 per cent.

Q. Now, Mr. Allensworth, are you familiar with the standing of 60 to 90 day time loans for the month of December, 1929?

A. Yes, sir.

* * * * * * *

Commissioner Geiger: The objection to that question is sustained.

Mr. Huffman: Note an exception and if the witness were permitted to answer we wish the record to show that his

3715 and 3716

[fol. 1347] answer would be that the standing of 60 and 90 day time loans for the month of December, 1929, was 4.84 per cent.

Q. Are you acquainted, Mr. Allensworth, with the standing of 4 to 6 months commercial paper as of December, 1929?

Mr. Turner: Objection.

* * * * * * *

Commissioner Geiger: It is not necessary to go any further; we have sustained your objection.

* * * * * * *

Mr. Huffman: Note an exception and let the record show if the witness were permitted to answer he would say he is familiar with 4 to 6 months' commercial paper standing as of December, 1929, and let the record further show that his answer to that question would be that it stood at 5.12 per cent.

* * * * * * *

By Mr. Huffman:

Q. Mr. Allensworth, what was the asked rates on 90 day acceptance for the month of December 1929?

Mr. Turner: Objection.

Commissioner Geiger: Objection sustained and exception noted.

3719

[fol. 1348]

Mr. Huffman: Note our exception and let the record show that if the witness were permitted to answer he would say that the asked rate of 90 day acceptance for the month of December and as of December 31, 1929, was 3.90 per cent.

Q. Now, Mr. Allensworth, can you give the discount rate of some of the Federal Banks throughout the country for December 1929?

Mr. Turner: Objection.

Commissioner Geiger: Before we rule finally on this question we understand you are offering these money rates to enlighten the Commission in order that they may properly determine the rate of income upon this property used and useful.

Mr. Huffman: Yes, it extends to that, but it goes beyond that and is also to be considered by the Commission in the rate of interest during the construction or what-not. We are not limiting our examination to that; we never said we limited our examination to that.

Commissioner Geiger: Well, it was so indicated by what you said and by our ruling.

Mr. Turner: May I just say——

Commissioner Geiger: Objection sustained and exceptions noted. Proceed.

Mr. Huffman: Note an exception and let the record show that if the witness were permitted to answer he would say that discount rates of Federal Reserve Banks as of December, 1929, would show at New York 4½ per cent, which rate was established November 15, 1929.

3720

[fol. 1349] At Boston 4½ per cent. established as of November 21, 1929;

At Philadelphia 4½ per cent. established previous to that time;

At Cleveland 5 per cent. the amount being established in 1928;

At Atlanta 4½ per cent, established November 23, 1929;
At Chicago 4½ per cent, established November 23, 1929;
At St. Louis 5 per cent, established July 19, 1928.
At Kansas City 4½ per cent, established December 20, 1929;
At San Francisco 4½ per cent, established December 6, 1929.

3721

[fol. 1350] Q. Mr. Allensworth, are you familiar with the trend of money rates since December 31, 1929 up and down?

Mr. Turner: Objection.

Commissioner Geiger: He can say whether he is or not.

Mr. Turner: Note an exception.

The Witness: I am.

Q. What has been the general direction of that trend, you know?

Mr. Turner: Objection.

Commissioner Geiger: Oh, he will say it is down; everybody knows it is down, but let us put it in the record.

Mr. Huffman: I think it is a matter of common knowledge but I want it in the record.

Mr. Turner: The only thing is that on the cross examination on that question you will say I am taking up time unnecessarily.

The Witness: The tendency is downward.

Mr. Turner: Motion to strike out the answer.

Commissioner Geiger: Motion overruled.

Mr. Turner: Note an exception.

[fol. 1351] By Mr. Huffman:

Q. Mr. Allensworth, in City Exhibit No. 61, you have included income tax as an expense, have you not?

A. Yes, federal income tax and state excise tax also; I take it you are referring particularly to Federal income tax?

Q. That is correct?

A. That is included.

Q. It is your position—

A. Pardon me; in City's Exhibit No. 61, Federal income tax is included, computed at the rate of 12 per cent on taxable income. However, the Federal income tax applicable

3722

[fol. 1352] to the year 1929 was actually 11 per cent. I used 12 per cent because of the fact that that was—the 11 per cent was a temporary rate only and was fixed by public resolution of the 71st Congress and, too, the rate to be tested, to be applicable subsequent to that period through the years, and at least up to now, the 12 per cent rate applies.

Q. It is your position then, Mr. Allensworth, that Federal income tax is properly included as an expense of a public utility for the purpose of testing rates?

A. Yes, sir, that is my contention.

Q. Well now, what is the effect upon a proper rate of return to the company of including the Federal income tax as an expense?

A. In effect, the inclusion of the Federal income tax in expenses shifts the tax to the consumer and increases the return to the stockholders by the full amount of the tax. The inclusion of Federal income tax in expenses reduces, by the full amount of the Federal income tax, the return otherwise allowable on the sound value of property used and useful. In other words, the return otherwise allowable on sound value of property used and useful should be reduced by the amount of Federal income tax exception on return to stockholders, and the measure of that exemption is the full amount of the tax.

Mr. Turner: I would be willing to have you take off all we paid in 1929.

Mr. Huffman: It is not a question of what you paid; it is a question of what you should have paid.

Mr. Turner: Well, the Government has been after us on that.

Mr. Huffman: Well, we may be making up a case for the Government.

3723

[fol. 1353] Mr. Turner: All right; I hope you find something.

Mr. Huffman: We hope not.

Mr. Turner: Go right ahead.

By Mr. Huffman:

Q. Mr. Allensworth, how do private businesses or business affected with public interests such as a public utility differ in the matter of disposition of Federal income tax?

Mr. Turner: Objection. That is another expert——

Commissioner Geiger: Objection sustained as not throwing any light on the question at issue.

Mr. Huffman: Note an exception and let the record show if the witness were permitted to answer the question he would answer as follows, and the witness may state it for the record.

The Witness: In private businesses, all Federal income tax cannot be included in expenses and passed on to the patrons of the business because charges for service or merchandise furnished and sold by private corporations are not fixed by public authority. If a private corporation——

Commissioner Geiger: Now, Mr. Allensworth, don't give us a lecture on that. You are going to state what you were going to testify to. We don't want any lecture. We have excluded it. Now don't do that. You are taking advantage of the Commission.

Mr. Huffman: Well I have a right to show what we propose to prove.

Commissioner Geiger: He cannot prove it by an essay on finances which he is about to deliver here.

Mr. Huffman: Well, this is a subject that you cannot put in a word or two.

3724

[fol. 1358] Commissioner Geiger: Well, he can get it in fifty words.

Mr. Huffman: So we are limited to 50 words, are we?

Commissioner Geiger: Yes, and that is plenty.

Mr. Huffman: You would allow us to 51 wouldn't you?

Commissioner Geiger: Well, we won't object to 51.

Mr. Huffman: All right. We will try to get it in 51 words. Proceed, Mr. Allensworth.

The Witness: If a private corporation earns a 7 per cent return, 12 per cent of that amount goes to the Federal Government for income tax and the income to the owner is a six per cent return practically, whereas if Federal income tax is properly includable in public utility expenses and thus passed on to the consumers, a six per cent return for a public utility, after payment of Federal income tax becomes equivalent to a 7 per cent return practically to a private corporation.

[fol. 1355] By Mr. Huffman:

Q. Are you familiar with the hazards or risks of the natural gas business in the City of Columbus?

A. Yes, sir.

Q. Were you familiar with that as of December 31, 1929?

A. Yes, sir.

Q. Are you familiar to some extent with the risks which private businesses run in Columbus at the present time and as of December, 1929?

A. I think so.

Q. Well, can you name some private business Mr. Allensworth in the City of Columbus, of similar risk to that of the Columbus Gas & Fuel Company?

A. I don't know of any private business operating in the City of Columbus that operates with as little risk as does the Gas Company.

3725

[fol. 1356] Q. Will you——

A. That is, I am referring to risk in yield, or return.

Q. Will you please explain that statement?

A. Well as to return or income, there is no risk involved in the business of the Columbus Gas & Fuel Company, excepting the risk of bad management.

Q. In making that answer, have you considered the comparative monopolistic conditions under which the company operates?

A. Yes, sir.

Q. And you say you have considered the guaranteed rate of return?

A. Yes, sir.

Q. And have you considered the fact that this is a distribution company purely?

A. Yes, sir.

Q. What have you to say relative to the possibility, if you know, of the depletion and what effect your consideration on that element had on your answer?

Mr. Turner: Objection. This man has not shown that he is a geologist yet, has he?

Commissioner Geiger: Well, now, I think no human being can really know as much as Mr. Allensworth says he does know. Now he is going into a field that includes geologists

and specialists on gas, and you may cross examine him as to his qualifications before he is permitted to go into that. As a matter of fact, if he would say yes, it doesn't mean that he knows.

Mr. Huffman: I think he has a right to say that he took these matters into consideration. I have no doubt but what this witness heard Professor Dewing say in the record in this case that as far as depletion of gas is concerned we 3726

[fol. 1357] could dismiss if from our minds.

Commissioner Geiger: Well, we heard that, too.

Mr. Huffman: Well, I want to know whether the witness, in making his statement relative to risks and hazards, considered those matters.

Commissioner Geiger: Is there an objection?

Mr. Turner: I am glad to have this in the record.

Commissioner Geiger: All right.

By Mr. Huffman:

Q. Did you consider those matters?

A. I did and that has no effect on the stability or return to this company.

Q. Well, what would be the position and possibilities of this company, were natural gas not available?

A. If it used ordinary business prudence it would engage in the distribution of other gas fuel.

Q. Then in answering relative to the risks or possibilities, have you taken that into consideration?

A. Yes, sir.

Commissioner Geiger: Have you taken into coinsideration what this Commission may find to be a just rate?

The Witness: I don't know what the Commission may find.

Commissioner Geiger: Well, isn't that necessarily a very considerable element, the return that this company may have?

The Witness: Well, begging your pardon, counsel was asking me about the risks of the business, not about return.

Commissioner Geiger: All right.

By Mr. Huffman:

Q. Do you know what the life of this ordinance is?

A. Five years.

Q. From what year to what year?
A. 1929 to 1934, I believe.

3727

[fol. 1358] Q. Then, in your judgment, and in consideration of the money market, the economic conditions and the return to private business of similar risk, and the rate necessary to attract capital to the field, what would be a fair rate of return to the Columbus Gas & Fuel Company on the sound value of its property for the life of this ordinance?

Mr. Turner: Objection.
Commissioner Geiger: Objection overruled.
Mr. Turner: Note an exception.
The Witness: Not more than 6 per cent.

Q. In your opinion then, in consideration of the period involved and the trend of the market, a 6 per cent. return, in addition to the other matters which you have considered, would be a fair rate of return on the sound investment which you have found for this plant as of December 31, 1929?

Mr. Turner: Objection.
Commissioner Geiger: Objection overruled.
Mr. Turner: Note an exception.

By Mr. Huffman:

Q. What is your answer?
A. Yes, sir.

[fol. 1359] Gas Leaseholds

The Ohio Fuel Gas Company

Necessity for Reserves. Value. Delay Rentals

[fol. 1360] Mr. L. A. Seyffert testified on cross-examination as follows:

1885

[fol. 1361] Q. Do you—and by that I mean The Ohio Fuel Gas Company—I should be more specific—does The Ohio Fuel Gas Company turn over substantially all of its Ohio gas, both that produced by it and purchased from others, to The Preston Oil Company under the Gasoline Extraction Agreement?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Substantially.

Q. You are treasurer of The Preston Oil Company?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, sir.

1886

[fol. 1362] Q. Would you mind telling me how many gallons of gasoline they extracted in 1930?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Haven't we given you that, Mr. Butler, haven't we given you that?

Q. Well, it may be so.

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. 1930 did you ask for.

Q. Yes. Now has The Ohio Fuel Gas, under that agreement, received from The Preston Oil Company any financial return for the privilege of treating that gas for gasoline?

(Question objected — by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, sir.

Q. How much did it get?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. What is represented by this contract.

Q. Well, would you mind giving me in figures what it turned over or what it paid in 1930, you say?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus [fol. 1363] Gas & Fuel Company.)

1887

(No reply.)

Q. Well, now, do you have in mind an allowance for gasoline or merely for the gas that it uses?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. I have in mind the gas that is used and the gas—whatever shrinkage there was.

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Well, for the gas used in the making of gasoline it does make a payment, yes.

Q. Yes, at 23½ cents a thousand?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, sir.

Q. 23.36 cents?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. That is right.

Q. Well, do you mean to tell the Commission that the right to treat your Ohio gas for extraction of gasoline is not a privilege of value?

(Question objected to by The Columbus Gas & Fuel Com-

1888

[fol. 1364] pany; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Well, I think there is a mutual value both ways.

Q. Well, if you just answer my question, and I shall not shut you off from any explanation.

A. Read the question again, please.

(Question read.)

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, I would say it was.

Q. Now I think you wanted to tell the Commission—and that is quite fair and proper—how you think the Preston Oil Company pays the Ohio Fuel Gas Company for that privilege?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Well, it pays for it by conditioning the gas and taking out those liquids which are detrimental to the service and destructive of the rubbers in the pipe lines and making the service better by removing those liquids from the lines.

Q. But, Mr. Seyffert, don't you miss the point a little? While you may desire those things taken out of your gas, we may assume that, just for the purpose of the question—I do not know the fact—but assuming that you want those things taken out of your gas and you want somebody to do it, isn't the privilege of doing that of sufficient value that somebody should pay some money for the privilege?

(Question objected to by The Columbus Gas & Fuel Com- 1889
[fol. 1365] pany; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. But if we want those things taken out and would have to pay for the service of getting them taken out——

Q. You are missing my question; you are usually very apt in getting it. I wonder if the stenographer will read it?

(Question read.)

A. I should repeat my answer, that it is also of value to the company to have it taken out.

Chairman Geiger: Answer the question yes, or that you don't know; is it of value or not?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. I answered before that it was.

1890

[fol. 1366] Q. Mr. Seyffert, talking about City's Exhibit No. 15, the Gasoline Extraction Contract, and before I leave that, will you tell me—you possibly have told me already—the gallons of gasoline that the Preston extracted from your gas in 1929 and the gallons they extracted in 1930?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. I think I have already given 1929 and I have a memorandum to get it for 1930.

Q. You might put it together and then we will have them in one place. Did I understand you before when you were on the witness stand to say that the Preston paid no dividends on its capital stock?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

1891

[fol. 1367] A. No, sir.

Q. Does it pay dividends?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. It does.

Q. How much?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. I cannot answer that offhand, Mr. Butler.

Q. The treasurer does not remember at this time?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. No, I do not remember.

Q. Well, jot that down, too. Now this Operating Agreement between The Ohio Fuel Gas Company and The Pres-

ton Oil Company—a separate agreement, Exhibit No. 16, and likewise bearing the official date of May 31st, 1930——

Mr. Turner: 1929, Mr. Butler: you said 1930.

Mr. Butler: No; May 31st, 1930, when it was signed.

Mr. Turner: Oh, yes, pardon me.

Mr. Butler: As I have explained, these were gotten ready and I assume these were not signed until the reorganization of The Columbus Oil & Gasoline Company.

Q. I think under that operating agreement, Exhibit No. 16, I shall be obliged to ask for some figures; by the way, was that the arrangement that was substantiallly in force 1892

[fol. 1368] during 1929?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, sir.

Q. So in that respect there was little if any change?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, sir.

Q. Probably worked out in a little more detail?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, sir.

Q. Does the Preston own gas and oil lands or leases?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes.

Q. And of course the Ohio Fuel Gas Company does?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, sir.

Q. What are the respective acreages?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

1893

[fol. 1369] A. The Preston Oil Company owns oil rights in practically all of the Ohio Fuel Gas Company's acreage.

Chairman Geiger: Pardon me right there; as I understood the question, it was, did they own gas and oil rights?

The Witness: Yes, sir.

Chairman Geiger: Is that correct?

Mr. Butler: That is what I intended.

Chairman Geiger: Well, now, are we going to get into the question of what their oil property is worth and what they derive from their oil separate from their gas?

Mr. Butler: Yes, I want these facts, if the Commission please.

Chairman Geiger: Why?

Mr. Butler: Because, as I understand, there was an interchange arrangement; the Fuel Gas oil wells went to Preston and the Preston gas wells went to Fuel Gas.

The Witness: That is true.

By Mr. Butler:

Q. Now I want to know how that thing operates and I was starting to get the acreage, and I think maybe in view of your previous answer, I can better start this way; does the Preston own oil rights in any substantial amount of land in which the Fuel Gas does not own gas rights?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. I would have to look that up, Mr. Butler; I cannot answer that from memory.

Q. Well, they do own joint interests, one oil and one gas, in a very considerable body of land?

1894

[fol. 1370] (Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, sir.

Q. Well, were those leases taken that way, or does that run back to some prior transfer of oil rights to the Preston?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Some of that transfer is here in this contract.

Q. Oh, there is?

(Q. objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas and Fuel Company.)

A. Yes, sir; some of it preceded this contract.

Q. Is there any way by which you could get that information and summarize it rather briefly for us?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. I think so.

Q. Make a note of that. I do not want to ask a multitude of questions concerning which probably one answer will largely be sufficient. Now take 1930, for example; how many wells did Fuel Gas drill in 1930? I don't care whether it is oil or gas, but how many wells?

(Question objected to by the Columbus Gas & Fuel Company; objection overruled, exception by The Columbus Gas & Fuel Company.)

1895

[fol. 1371]

A. Do you want to know the exact number? If you do, I could not tell you, but between 400 and 500.

Q. How many of them were dry wells?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled, exception by The Columbus Gas & Fuel Company.)

A. I cannot tell you that exactly either. I think approximately one-third of them.

Q. And how many were oil wells?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled, exception by The Columbus Gas & Fuel Company.)

A. I cannot tell you that.

Q. How many gas wells?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. I cannot tell you without looking it up.

Q. Well, I think we better have these figures for 1929 and 1930, because I assume you can get them very easily when you turn to your records.

1917

[fol. 1372]

L. A. Seyffert, cross-examined by Mr. Butler, testified as follows:

By Mr. Butler:

Q. Now, Mr. Seyffert, I want to call your attention to what I think is Company's Exhibit No. 44. Mr. Seyffert, in your Company Exhibit No. 44 you have included $43,044,477.00 for your gas lands?

A. Yes, sir.

Q. And, as I understand, you have simply used figures that somebody else fixed; you do not fix those figures yourself?

A. No, I did not fix them. The names of the men who fixed them are shown on page 4.

Q. I do not remember that any one of the men you list in the exhibit in respect to the appraisal of those gas land has been a witness here?

A. No, sir.

Q. Do you carry these gas lands in your books Class No. 1, Class No. 2, Class No. 3, Class No. 4?

A. No, sir.

Q. Do you carry them on your books subdivided in any way whatever?

A. Yes, sir, operated and unoperated.

Q. In other words, Class No. 1 would be operated and Class No. 2, Class No. 3 and Class No. 4 the unoperated?

A. Yes, sir.

Q. What is the difference between operated and unoperated?

1918

[fol. 1373]

A. The operated lease has a well on it—one or more wells, and the unoperated leases do not have.

Chairman Geiger: Now, assuming that land has a well on it; how much land do you then put in as being operated by virtue of that one well?

The Witness: If it is a 160 acre lease, put the whole 160 acres in.

Chairman Geiger: How much would a well draw from?

The Witness: I could not tell you that.

Chairman Geiger: But you put it all in if there is one well on 160 acres you put it all in as operated land?

The Witness: It changes the character of the lease.

By Mr. Butler:

Q. Suppose you have a 250 acre tract and a well on it? A. We put the 250 acres in operated.

Chairman Geiger: Suppose there is a well on a ten acre tract, do you put just the ten acres?

The Witness: Yes, sir, just the ten acres.

Chairman Geiger: Even though you may have a lease on an adjoining tract but owned by a different person?

The Witness: Yes, sir, that is right.

Chairman Geiger: You then base the amount you put in as operated land upon the ownership of the lessor; if you lease under one lease 150 acres and you have one well on it, it all goes in as operated land?

The Witness: Yes, sir.

Q. If, on the other hand, you have ten acres from another owner and have one well on that and do not have any adjacent land to that, why, you put the ten acres in as operated?

1919

[fol. 1374] The Witness: The question of adjacent land does not make any difference; it is just that one ten acre tract.

Chairman Geiger: I mean ten acres belonging to another owner?

The Witness: It makes no difference whether you have or have not the adjacent land.

Chairman Geiger: I see.

By Mr. Butler:

Q. How many acres of operated gas lands have you on your books now?

A. At this time—this is at June 30th, 1929, when this valuation was made, there were 291,396 acres of operated leases.

Q. Has that increased or decreased?

A. That I think has increased.

Q. How many acres of unoperated gas lands?

A. 2,542,791 at June 30th, 1929.

Q. Do you have your operated acres and your unoperated acres distributed by counties in Ohio?

A. Yes, sir.

Q. How many wells have you in production?

A. Oh, I don't know exactly; I think it is around 3700 or 3800.

Q. And you have those so that you can give them by counties?

A. Yes, sir.

Q. I do not believe that I will ask you to read it into the record; I fancy that you could have one of your stenographers prepare a little exhibit; take a county.

A. I do not have the information here; I could not read it into the record now.

Q. Well, all right; take one county, for example; opposite that give the operated acres and the unoperated acres, and the number of gas wells now in operation.

1920

[fol. 1375] (No reply.)

Q. Will you tell me at what amounts you carry all of this acreage operated and unoperated on your books?

A. I have a memorandum here of the amount at December 31st, 1929, as $8,478,281.00; I would like an opportunity to verify that; if it is different I will tell you.

Q. Well, it sounds like the figures that I roughly had in my own mind. Now you united the Logan—no, that is not quite correct; the Logan was taken over by the Ohio Fuel Gas Company in May or June, 1929?

A. Yes, sir.

Q. Now tell me how many acres operated and unoperated the Logan brought to you and how many operating gas wells it brought; you will have to look that up, will you?

A. Oh, my, yes.

Q. Well, I got my figures from your annual reports but they do not quite check up to the date; can you give me

the amounts at which the Logan carried its gas lands when taken over by The Ohio Fuel Gas, and how much the Ohio Fuel Gas carried its gas lands at *at* the same time?

A. I think so.

Q. My own recollection is that it was, for the Logan, somethings like six million plus, and for the Ohio Fuel Gas two million plus?

A. I think that is about right.

Q. But if you can get the exact figures, do so.

(No reply.)

Chairman Geiger: You gave me your total figure awhile ago, $8,478,281.00?

The Witness: Yes, sir.

By Mr. Butler:

Q. Are you acquainted, Mr. Seyffert, with the subdivision of gas lands that was made in the Logan case; Class No. 1, Class No. 2, Class No. 3 and Class No. 4? 1921

[fol. 1376] A. No, I am not.

Q. Nothing at all on your books that would enable you to make those classifications? Let me tell you what I mean; Now, Class No. 1 in that case could be defined somewhat this way; leases of tracts of land having producing gas wells drilled thereon from which gas is being furnished to the public; now that you have, as you have said?

A. That is operated.

Q. Now Class No. 2, leases of tracts of land proved by actual developments and operations in the immediate vicinity thereof to be good gas producing lands but which do not have any producing wells drilled thereon?

A. We have no records in our books of that; that is changing all the time.

Q. Well, you have nothing in your books, nothing within your corporate records, that would enable you to produce that?

A. No, sir.

Q. Now Class No. 3, leases of tracts of land shown by surrounding or neighboring developments or operations, geological considerations, etc., to be reasonably certain to be good gas lands, at least as to large portions thereof, but not yet demonstrated to be such by actual drilling.

A. We do not keep those separate on our books.

Q. And you have no information that would enable you to do that?

A. I have the information on this—that is, these gentlemen here got information sufficient to allow them to make——

Q. Oh, yes, I understand that—an appraisement, but they have not appeared here; but not in your corporate records?

A. No, sir.

1922.

[fol. 1377] Q. And that is true; I assume of Class No. 4, leases of tracts of land situated within the areas of territory where gas lands are known or assumed to exist from general geological conditions but which are so remote from actual gas producing wells or territory that they are merely prospective gas lands?

A. We just have the two classes, operated and unoperated.

Chairman Geiger: Well, you have the records available of the Logan Gas Company which you bought out or with which you combined, haven't you, from which they made that valuation?

The Witness: I cannot say positively that we have that. I presume it is in existence somewhere. I had very little to do with the Logan case and I am not really familiar with where those records are but I rather think they are in existence.

By Mr. Butler:

Q. Well, Mr. Seyffert, I have the understanding that you have exhibits that show the original cost of all of those Logan gas lands up to the time certain in that case which I think was December 31st, 1924; am I not right about that?

A. I think we have, yes, sir.

Q. Now I should like to have those.

A. I would imagine that would be part of the other record but I do not know that.

Q. Well, possibly so, but I am assuming that you have them in your records too; if not, wherever they are, we can try to get them.

A. Do you think that is as of December 31st, 1924?

Q. Yes; that may not be the exact date; you will ascertain that?

(No reply.)

Mr. Huffman: That is correct, December 31st, 1924.

Q. Now, Mr. Seyffert, I am assuming that so far as 1923
[fol. 1378] the Logan is concerned you can add to that total the actual costs shown by the Logan books for gas lands acquired subsequent to December 31st, 1924, up to the time that it was taken over by the Ohio Fuel Gas?

A. I think so.

Q. All right, that will do very nicely. Now can't you do for us in respect to Ohio Fuel Gas, up to the time that it took over the Logan, the same thing that the Logan did up to December 31st, 1924, the original costs of those gas lands?

A. I think so.

Q. All right.

A. You do not want the Ohio Fuel in 1924; you want the Ohio Fuel in 1929 and the other brought down to 1929?

Q. Yes; and then from the time they were joined, of course, it is a matter of book costs which you can add on because I understand—I may be in error—that these book costs that now total eight million dollars or more are not the same as the totals of the original costs.

(No reply.)

2066
[fol. 1379] Q. Mr. Seyffert, the voting trustees, George W. Crawford and Philip G. Gossler, are leading key men in the Columbia System, aren't they?

A. Yes, sir.

Q. And likewise in The Columbia Engineering and Management Corporation?

A. I do not know just—I do not remember just what their positions are in the Management Corporation, but they are the leading men.

Q. Now this Voting Trust Agreement recites the issuance of the first preferred stock and the second preferred stock and the common stock by Columbia Oil & Gasolene Corporation, and further recites that all of the first preferred and all of the second preferred will be owned by the Columbia Gas & Electric Corporation and the common stock by voting trust certificates will be distributed among

the holders of the common stock of the Columbia Gas & Electric Corporation. Then of course follow the usual conditions that we find in a voting trust agreement, and I pass over it all, and I go over to page 20, and I will read just a little from that:

"Without prejudice, however, to the powers and rights aforesaid, the Voting Trustees are hereby authorized (1) to attend, either in person or by proxy, any meeting or meetings of stockholders of the Corporation, at which such ques-

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[fol. 1380] tions shall arise and thereat to vote, if they shall deem it advisable to do so, in favor of the amendment of the Certificate of Incorporation of the Corporation so as to confer upon the holders of the First Preferred Stock and Second Preferred Stock of the Corporation, immediately upon the termination of the voting trust, full voting rights share for share with the holders of the Common Stock, or full voting rights at the rate of more than one vote for each share of First Preferred Stock and/or Second Preferred Stock notwithstanding that the Common Stock has the voting right at the rate of only one vote for each share."

That is not all, but that is all I care to read. And there is also the provision that while this terminates in—is it 1940? You may help me out if you can.

A. I am trying to find it, Mr. Butler; I think it is 1940; I think it is ten years, but I do not find it.

Q. It is strange, it always hit me in the face before.

A. It is I believe on page 4 you will find what is a copy of the voting trust certificate; "Said agreement shall continue in effect until June 30th, 1940."

Q. That is what I wanted: "Said agreement shall continue in effect until June 30, 1940, and may be renewed from time to time as therein provided but to a date not later than June 30, 1950, subject, however, to prior termination as provided therein."

Did your Preston Oil Company declare a dividend last year?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

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[fol. 1381] A. Yes, sir.

Q. Well, I think that is not probably what I mean; I mean for the business of 1930?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, sir.

Q. What was that?

Mr. Turner: Objection; "for the business of 1930".

The Witness: They declared dividends throughout the year 1930.

Mr. Turner: Well, that is not just exactly what Mr. Butler asked you, I don't think.

By Mr. Butler:

Q. Well, really what I mean is whether you declared a dividend with respect to earnings for 1930?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, sir.

Q. What has that dividend been?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. I don't remember just what that was, Mr. Butler.

Q. Find that for me if you will; make a note of it. Have you that here?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas

2069

[fol. 1382] & Fuel Company.)

A. Oh, no, I haven't it here.

Q. Well, the-, I wish at that time you would give me a balance sheet of The Preston Oil Company for December 31st, 1930, and also in 1929, and they can be carried right along on the same sheet, I suppose. Now following up the matter of oil and gas leases——

Commissioner Geiger: May I get just one question in there?

Mr. Butler: Yes, Your Honor.

Commissioner Geiger: In order to help understand this, in City's Exhibit 23, which is the Preston Oil Company's statement showing book investment, incomes and dividends, with the ratio of income, book investment, and the ratio of dividends, book investment, how were those book investments determined; what was the basis of fixing the book investment at the amount that you did?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Those are figures just as they appear on the books and I think without exception they are cost.

Commissioner Geiger: Cost?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, sir.

Commissioner Geiger: Well, cost paid to whom?

(Question objected to by The Columbus Gas & Fuel Com-
2070
[fol. 1383] pany; objection overruled; exception by The Columbus Gas & Fuel Company.)

The Witness: Well, to a great many people; it is the construction of plants and the drilling of wells.

Commissioner Geiger: It is not the cost of the transaction between the inter-related companies?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. No, sir.

Commissioner Geiger: All right; that is all.

By Mr. Butler:

Q. In this book investment are there included any leases of The Preston Oil Company?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. What book investment do you refer to, Mr. Butler?
Q. On this exhibit?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Oh, you mean this Exhibit 23?
Q. Yes.

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas and Fuel Company.

A. Yes, sir.
Q. What part of that do you carry as leases?

(Question objected to by The Columbus Gas & Fuel Com- 2071
[fol. 1384] pany; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Well, I cannot tell you that without looking it up.
Q. I suppose this balance sheet will show that?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. No, it would not; I would have to get a detail of this investment in order to show that.
Q. Well, I will come to that in another way presently. Now I asked you to report to me for the years 1929 and 1930 the history of the drillings of The Fuel Gas Company and the Preston; in other words, how many wells in 1929 did The Ohio Fuel drill?
A. I have that here.
Q. You say you have it?
A. Yes, sir; you asked me that the other day.
Q. Yes, I was intending to call for that exhibit.

Mr. Turner: As to the drilling of the Ohio Fuel Gas wells, I want no objection to show in the record, but do ob-

ject to any statement regarding the drilling of wells by The Preston Oil Company.

Mr. Butler: This may be marked as City's Exhibit No. 24.

And thereupon the document last above referred to is marked for purposes of identification herein as City's Exhibit No. 24.

Q. You have handed me what has been marked City's
2072
[fol. 1385] Exhibit No. 24 and that relates to the gas wells that were drilled by The Ohio Fuel Gas Company in 1929 and 1930?

A. Yes, sir.

Commissioner Geiger: This Exhibit 24 does not include 1930?

The Witness: Yes, it does, at the bottom of the page, Your Honor.

Q. How many wells did The Ohio Fuel Gas Company drill in 1929; and that includes the Logan, I assume, of course?

A. Including the Logan there was 490.

Q. Where do you get that number?

A. It is the next to the last item on the bottom of the page, Mr. Butler, under the heading of The Ohio Fuel Gas Company, 331 gas wells, 122 dry and 37 oil wells.

Q. How many of those oil wells were transferred to the Preston?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. I think all of them.

Q. The whole 37?

(Question objection to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. I would not say absolutely, but I see just above there, you will find the number of wells transferred from The Ohio Fuel Gas Company to The Preston Oil Company in

1929 was 43 — a few more than 37, so I assume the 37 are a part of the 43.

Q. Well, why the 43; some of those came over from 1928?

2073

[fol. 1386] (Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Some from previous years, yes, sir.

Q. I see. Now during 1930, that is at the very bottom a total of 506 wells?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. 406 wells.

Q. 406 wells, and 274 were gas wells, 120 dry and 12 were oil wells?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, sir.

Q. How many of the oil wells were transferred to the Preston?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. I would assume all of them again, because the item above shows that there were 27 wells transferred from the Gas Company to the Preston in the year 1930.

Q. What happens, which is another way of saying, what is the consideration that passes when an oil well is transferred from the Ohio Fuel Gas Company to the Preston?

(Question objected to by The Columbus Gas & Fuel Com-

2074

[fol. 1387] pany; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Most generally it is at cost.

Q. Just the cost of drilling the well?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. The cost of the well, yes, sir.

Q. That is material and construction cost?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Material and construction and the back rentals on the lease.

Q. Well, how far back do they go for the back rentals?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. I think to the beginning.

Q. How long has that been the practice, Mr. Seyffert, of going back to the beginning of the lease?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. I cannot answer that, just how long that has been the practice.

Q. Could you tell me the total back rents for those 43 wells transferred in 1929 and those 12 wells transferred in 1930?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

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[fol. 1388]

A. Yes, sir.

Q. Have you the amount there?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. I have not the amount here, no, sir.

Q. Just make a note of that. I would like to know that. Now tell me how many wells the Preston drilled in 1929; that is a separate exhibit, is it?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, sir.

Mr. Butler: This will be City's Exhibit No. 25.

And thereupon the Document last referred to was marked for purposes of identification herein City's Exhibit No. 25.

Chairman Geiger: Right at that point, Mr. Seyffert, what is the standard between gas and oil that fixes the well as being one that should be turned over to the Preston; do wells flow both gas and oil at the same time?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, sir, they do.

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[fol. 1389] Commissioner Geiger: Well, now, assuming that a well has both a flowage of gas and oil, how do you handle that as between your company, the gas company, and the oil company; do you turn the oil over to them or an interest in the well or what?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. That is rather a difficult problem to work out sometimes; it is worked out between the superintendents, the operating superintendents, of the respective companies. In a general way if the oil is made by the flowing of the gas, the oil is kept separate for the oil company, but if it is a case where the oil has to be pumped, then it is turned over to the oil company and the gas sold to the gas company.

Chairman Geiger: Well, now, if you have a well that must be pumped, that goes primarily——

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

The Witness: To the oil company.

Commissioner Geiger: And then does the oil company sell the gas back to the gas company?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, sir; and if the gas well is rather a large gas well and more gas than oil, they do not retard the flow of gas by shutting it in to pump it but it goes to the gas company

2077

[fol. 1390] and the oil made incident to the operation of the gas well goes to the oil company.

Commissioner Geiger: Now, could it be possible that a well that is turned over to the oil company as an oil flowing well at a later date becomes a gas well?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

The Witness: Yes, sir; that is the reason for these differences in these figures.

Commissioner Geiger: That is, you have no way of determining finally what is going to be the ultimate predominant character of the well; it may be at one time more of a gas well than an oil well, or vice versa?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

The Witness: Most of them you can tell the difference to start with but there are some on the border line and they try to exhaust the product that will be most likely lost if they don't handle it in that way and then if that product is exhausted, and that product is the gas, and after the gas is exhausted and there is still some oil, it is turned over to the oil company; and the reverse is true also.

Commissioner Geiger: All right, but if that happens there is an accounting between the two companies as to the value of the product, whatever it may be, either oil or gas?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas

2078

[fol. 1391] & Fuel Company.)

The Witness: Yes, sir.

By Mr. Butler:

Q. Now, City's Exhibit No. 25 does in respect to the Preston what City's Exhibit No. 24 does for The Ohio Fuel Gas Company?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. They are a little different but substantially —

Q. Well, I mean the principles are the same?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, sir.

Q. How many wells did the Preston drill in 1929?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. 72.

Q. And seven of them were gas?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. They were.

Q. And turned over to The Ohio Fuel Gas Company?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, sir.

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[fol. 1392] Q. 54 were oil and 11 dry; now in 1930 there were 49——

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, sir.

Q. Wells drilled, of which only two were gas wells and turned over to the Fuel Gas?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. That is right.

Q. Does the Fuel Gas take the gas wells as the Preston takes the oil wells, that is, subject to the payment of all accumulated rentals?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, sir.

Q. Well, often there is very little rental paid until a well is completed, either for oil or gas, isn't that true?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. No; rental is paid during the entire term of the lease until a well is drilled.

Q. I am rather speaking of the amount; the amount is not large?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas

2080

[fol. 1393] & Fuel Company.)

A. Well, the amount differs, depending upon the terms of the lease.

Q. Well, it then becomes a royalty matter?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, it then becomes a royalty matter.

Q. An oil well is ordinarily carried on a one-eighth royalty?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, sir.

Q. And how is a gas well ordinarily carried?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Usually on a certain price per year per well.

Q. Without respect to the amount of flow?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, sir.

Q. I note that the operated acreage of the Preston for 1929 was 71,000 acres plus, and 63,000 acres plus in 1,930, while the unoperated acreage in 1929 was 2,841,330 acres and in 1930, 2,395,813 acres, and you have your operated acreage divided by counties and your unoperated acreage

2081

[fol. 1394] not allocated to counties—and I am finding no fault with that because that doubtless would have required a good deal of time; now do any of these Preston acreages overlap the Ohio Fuel acreages?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, sir.

Q. To what extent?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Practically all of it, as I testified a day or two ago.

Q. Well, I don't think I caught that; in other words, the acreage, roughly speaking, is the same?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, sir.

Q. But the Ohio Fuel has the gas rights and the Preston the oil rights?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. That is right.

Q. Well, were they taken that way or how did that come about, or has that been by transfer of some sort?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas 2082

[fol. 1395] & Fuel Company.)

A. That has been by transfer.

Q. When was that done.

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Well, it has been done for a good many years past; there is one letter only in that contract you have before you there, City Exhibit 15 or 16, I don't remember which.

Q. Do you mean the operative agreement?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes; there is a transfer provided for in there.

Q. In other words, when that operative agreement became operative it completed the transfer of oil rights and gas rights, divided them between those two companies?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, sir.

Q. The gas to the Fuel Gas and the oil to the Preston?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, sir, at that time.

Commissioner Geiger: Well, now, assuming, as I gather it, that there is a certain amount of acreage and it produces 2083

[fol. 1396] both gas and oil and it is of a certain value as a total, including its oil and gas; is there any way to tell the value of that that remains in the gas company after you have transferred the oil rights to the oil company?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

The Witness: I don't know how.

Commissioner Geiger: The total value, of course, would be the value of both the oil and gas—of the acreage?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

The Witness: Yes, sir.

Commissioner Geiger: Then you turn over to the oil company a certain amount of oil rights or oil value and what is left in value is the value of the property used and useful for gas producing purposes; would that be the way?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

The Witness: No, I don't think that is quite right.

Commissioner Geiger: Well, I just wondered how you get——

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

The Witness: When a well is turned over to the Preston it all belongs to the Preston then.

2084

[fol. 1397] Mr. Turner: And does the Preston turn wells over to the gas company?

The Witness: Yes, and when a well is turned over to the Ohio Fuel Gas Company it all belongs to the Gas Company.

Commissioner Geiger: When you turn over a well dug by the Gas Company that produces oil—over to the Preston Company, do you turn over to it any acreage or just the well?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

The Witness: I think I am right in saying we turn over that lease.

Commissioner Geiger: Well, it may be—it is quite possible that on the same lease, if it be a large one, the next well that is dug will be a gas well and not an oil well?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

The Witness: Not very likely, no.

Commissioner Geiger: All right; you treat it in this way, substantially, that if a well dug upon a particular lease produces so much oil, that it should be turned over to the Preston Company as an oil producing territory—that the whole of the leased acreage would be turned over with that well, or in connection with that well?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

The Witness: And the Preston then would continue the 2085

[fol. 1398] development of that lease if it looked promising for further oil development.

Commissioner Geiger: I see.

By Mr. Butler:

Q. Well, now, do you at the end of each year adjust your respective acreage?

(Question objected to by The Columbus Gas & Fuel Company.)

A. No, we have not.

Q. But if the Fuel Gas drills—develops an oil well that oil well goes to the Preston?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled, exception by The Columbus Gas & Fuel Company.)

A. At that time.

Q. Does it carry acreage with it?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, sir, it carries the acreage in that lease and it is possible to carry some surrounding acreage, depending upon the looks of the territory.

Q. Well, what is the formula; how do you determine that?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. I don't think there is any formula; that has to be a matter of judgment of the man experienced in the business

2086

[fol. 1399] and conversant with the territory.

Commissioner Geiger: Wouldn't it be quite possible that on a lease of, say, 640 acres that one well might be dug that would be predominantly an oil well, and on the same acreage and the same lease another well might be dug that is distinctly a gas well? Now if that be *ture*, where would the acreage of that lease finally be lodged, with the oil company or the gas company, or would it be split between them?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Well, I don't know whether we have any such cases or not, Your Honor. You are putting up a question that is a practical one and it would be difficult for me to say because we would have to take into consideration the development in the whole neighborhood, not the development of the one lease. It might be right close to an oil pool and that would determine in your mind that it is perhaps an oil district, and you would not drill the other wells except if you were looking for oil; and then of course if it came in gas there would be some adjustment that would have to be made.

By Mr. Butler:

Q. Who is the president of the Preston?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

Q. Mr. Cross.
Q. And who is president of the Ohio Fuel Gas?
A. Mr. Cross.
Q. And you are treasurer of each of the companies?

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[fol. 1400] (Question objected to by The Columbus Gas & Fuel Company.)

A. Yes, sir.
Q. And who is the secretary of each company?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. P. A. Alberty.
Q. And who is the Chairman of the Board?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Fred W. Crawford.
Q. For each Company?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, sir.
Q. Well, now, who is it that gives the final word as to whether or not the Preston shall drill wells?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Well that is a little difficult to say the final authority always rests with the highest officer.
Q. Who is the highest officer?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas

2088

[fol. 1401] & Fuel Company.)

A. Mr. Cross. However, those are matters of daily consideration by examination of the maps and progress of the drilling in the vicinity and the possibilities of gas or oil, and also the needs for gas and the conditions of the lease; the lease requirements and things of that sort all have to be taken into consideration and that is done by men of long experience in the oil and gas business.

Q. Roughly, what does it cost to drill one of these wells? I am speaking of an average now. I realize they differ in different localities.

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. The gas wells run from, in our average territory, from $8,000.00 to $10,000.00, and the oil wells will run from, in the deeper sands, from $10,000.00 to $13,000.00 or $14,000.00.

Commissioner Geiger: That is in all the Ohio territory, the average in Ohio?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

The Witness: Well, don't make it too broad, Your Honor, because wells are of different depths in different parts of the State, and there are also shallow sands and there are deep sands; I am speaking of the deeper wells and the wells of which we have the larger number.

By Mr. Butler:

Q. I got the idea, that covering a period of time in the general territory, that is the approximate amount, not an

2089

[fol. 1402] accurate amount?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes.

Q. Well, it seems to me that from this, unless I mistake, that the Fuel Company is doing the most of the drilling; as I right about that?

(Question objection to by The Columbus Gas & Fuel Company; objected overruled; exception by The Columbus Gas & Fuel Company.)

A. Absolutely; the Fuel Company has to drill wells to get gas for its markets.

Q. Well, when they get—when they do their experimenting and get dry wells, that goes into their operating charges doesn't it?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, sir.

Q. So as a business proposition it is not bad to let the Fuel Gas do most of the drilling, is it?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. From which standpoint are you speaking?

Q. Well, from the standpoint of rates and profits?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas

2090

[fol. 1403] & Fuel Company.)

A. The Fuel Gas Company is obligated to do drilling for various reasons. It has its lease requirements; it has to keep the leases and has to make—to drill offset wells to protect the land owners and farmers when a well is drilled by a competitor near the farm lines; and they also have to drill to get gas for the next winter's supply; they have to try to get gas in the vicinity where they already have compressor stations to keep from the necessity of building more and increasing the cost more than is absolutely necessary; whereas, the Preston is not obligated to drill any at all; it can drill where it thinks it can make profitable drilling.

Commissioner Geiger: When the Gas Company drills a dry hole the loss falls on the Gas Company because the Preston Company does not drill any holes at all?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

The Witness: Oh, yes, they do; they drilled 72 in 1929 and drilled 49 in 1930. The Preston drilled 11 dry holes in 1929 and 13 dry holes in 1930.

By Mr. Butler:

Q. In two years the Preston had how many dry holes?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. 24.

Q. And the Fuel Gas had 242 dry holes?

A. That is right.

Q. And for every hole—or for every well that the Pres-

2091

[fol. 1404] ton drilled the Fuel Gas drilled eight wells, didn't they?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Well, the figures are all there.

Q. Don't desert me at the critical moment.

A. I see you have a pencil there.

Q. All right, Mr. Seyffert; I still don't understand how these leases were originally taken; were they taken to the Fuel Gas or to the Preston? I am thinking out loud—or did the Fuel Gas take them and then transfer the oil rights to the Preston?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Generally speaking, the larger proportion undoubtedly were taken by The Ohio Fuel Gas Company, oil and gas both, and they transferred to the Preston the oil rights.

Q. Well now, do I understand you that you carry these same leaseholds in the assets of the Fuel Company and also in the assets of the Preston, but the asset value in the Fuel Gas is the gas contained, or gas rights, and the asset value of the Preston is the oil rights?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. There is no duplication; I want to bring that out, that there is no duplication; the amount carried in the Preston is not also carried in The Ohio Fuel Gas Com-

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[fol. 1405] pany. The amount is The Ohio Fuel Gas Company represents whatever interest they have and the amount in the Preston represents their interest.

Q. Well, the amount that the Preston has represents what it paid to the Fuel Gas?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, sir.

Q. In money?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Or to some one else, yes, sir.

Commissioner Geiger: Is there an exhibit with reference to the Fuel Gas that is similar to Exhibit 25 which is the exhibit with reference to the Preston?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

The Witness: 24 is practically the same, Your Honor—not quite the reverse, because in 24 it shows all the wells of The Ohio Fuel Gas Company by counties, because Mr. Butler had asked for that information, and in the Preston, Exhibit 25, it shows the acreage by counties of the Preston.

Commissioner Geiger: Not the acreage of the Fuel Gas Company?

The Witness: Well, he has asked for that; as soon as he gets to it I will give him that.

By Mr. Butler:

Q. Well, we might as well get it then.

2093

[fol. 1406] (No reply.)

Mr. Butler: This may be marked City's Exhibit 26.

And thereupon the document last above referred to is marked for purposes of identification herein as City's Exhibit No. 26.

[fol. 1407] Cross-examined by Mr. Butler:

Q. What is City's Exhibit No. 26, Mr. Seyffert?

A. It is a statement of the acreage of The Ohio Fuel Gas Company as of June 30th, 1929, shown by Counties, and also in the two classifications, operated and unoperated.

Mr. Turner: I have no objection to that question, Your Honor.

Q. What do you mean by "operated acreage" in City's Exhibit 26?

A. That is the area of the lease on which a well is drilled.

Q. And so I understand that area is not always the same? A. No, sir.

Q. It usually carries the particular lease?

A. Yes, sir.

Q. But if the lease be too large, then do you subdivide it?

A. Not in these figures, no, sir.

Q. In other words, wherever there is a lease and it has on it a gas well you include the total acreage?

A. In this statement, yes.

Q. Well, some of those leases cover rather large tracts, don't they?

A. A few of them.

Q. What would you say is the approximate or largest amount of acreage that one gas well carries?

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[fol. 1408] A. Do you mean the average size of the lease?

Q. No, I am talking about the maximum now rather than the average?

A. Well, that would depend upon the boundaries of the lease. I could not answer that question. If you want the average, you have the total number of wells on Exhibit 24, 3804 wells.

Q. Do I have to do that?

A. You have to do that, I am afraid. You have 347,000 acres, or a little less than 100 acres to the well.

Q. And the same holds true now—the same principle, in respect to City's Exhibit No. 25 where you give the operated acreage of the Preston?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, sir.

Q. In other words, now, the operated acreage of the Preston and the operated acreage of the Fuel Gas are separate and distinct?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. I think you are right on that; I would like to check myself on that.

Q. Well, do that. And it would seem, if you separate them or segregate them, that they are distinct, and, of course——

A. I think that is correct; I don't just remember now.

Q. Now is this operated acreage what you call No. 1 in the leaseholds—No. 1, No. 2, No. 3 and No. 4?

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[fol. 1409] A. No, it differs some.

Q. In what respect? In trying to check that I find I was considerably confused there.

A. Exhibit 44, on page 19, you will find there that Class No. 1 operated is shown as 291,396 acres, or about 56,000 acres difference—lower. That I think is brought about by the fact that when these men took those maps and took those leases to make a valuation of them they took into consideration those larger leases and only applied to the Class 1 operated that which they considered was operated,

whereas on our books the character of the lease changed and consequently would throw it into the operated class.

Q. That probably answers the query I had in mind; these maximum leases they consider probably a little too large to allot to one well?

A. Yes, sir.

Commissioner Geiger: Just on that point, are you going to be able to give us any intelligent estimate as to how many acres are really and properly drained by a gas well and how many by an oil well?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

The Witness: Well, I am not going to do it personally, Your Honor, because I have not made enough study, but these gentlemen who placed the value on the leases have certainly taken that into consideration in placing their prices and value not only on No. 1 but also on No. 2, which may be immediately adjacent to a well; for instance, if a well were on a ten acre tract it may be entirely surrounded

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[fol. 1410] by leases which are all just as likely to be as productive of gas as that ten acre tract.

Commissioner Geiger: What I have in mind somewhat is whether or not you can properly meet the questions which may occur as to the property that is used and useful in the production of gas; let us assume this, and see if I can get my query to you; that there is a lease of 1,000 acres and it has drilled on it only one gas well, and it is set—it is considered in your books as productive gas property and it is carried as such—operated; now how much of that 1,000 acres is really operated by the one well; how much of it is dedicated to public service by the drilling of a single well; is there any way to tell that within reason?

The Witness: Well, I would say that all of the acreage, reserve and all, is dedicated to public use, because, in the judgment of the company, every acre we think is necessary for the purpose of supplying the customer or we certainly would not have it.

Commissioner Geiger: I see.

The Witness: Now I would like to go just a little further and explain I think another point in your question. If we

had a 1,000 acre lease and we put one well on it and by the terms of the lease it changed the character of that lease from one on which a delay rental was paid at so much per acre, it changed the character of it to a lease in which we paid a royalty on the well that carried the lease, and it was—the character was changed also by reason of the fact that while it was undeveloped, while there was no drilling there, it could be surrendered at any time, after a well has

2097

[fol. 1411] been drilled then it belongs to the company so long as oil or gas is produced therefrom, upon the payment of the royalty for the well. Now, that thousand acres then on our books would be operated.

Now when this valuation was made up by these men they took—we take that 1,000 acres again, if they thought that part of that 1,000 acres was just as good as the acres immediately surrounding the well they would undoubtedly include that with their No. 1 acreage. Another area perhaps just a little further along that they might consider just as good and would put that in No. 2; and then if the thousand acres was in such a shape that part of it was some little distance from any production, either upon that lease or adjacent leases, they might put that in Class 3 or Class 4. That would mean a study of the lease and a study of the map and a study of the drilling on the lease, a study of the drilling surrounding, getting the well records and knowing and knowing what sand they had struck, what sand they were liable to get, and a great many things must be taken into consideration.

Commissioner Geiger. Certainly. You would consider this to be a fact, that if the lease was for 1,000 acres and there was one gas well drilled upon it, that all of that 1,000 acres would thereby be deemed to be dedicated to public use even though the gas from the whole area under the within 1,000 acres could not flow out of the one well that was drilled?

The Witness: It would not follow immediately, but the Gas Company has to have some one to make reserves for the future, and——

Commissioner Geiger. I know.

The Witness: And it is dedicated to that extent, that it is there for the drilling of another well as need comes.

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[fol. 1412] Commissioner Geiger. Well, the only thing I was trying to get at, if any engineer or gas expert could

tell how much of a territory adjacent to a flowing gas well is actually put into service and having the gas drained from under the ground adjacent to that gas well, how far the gas would travel under that ground to get an outlet at that particular well?

The Witness: I do not think that has ever been determined because no one has ever been able to see the sand and know just the porocity of it and all the conditions surrounding it, and where the gas might filter into it from.

Commissioner Geiger: Well, is this true, as a general proposition, that the area that may be drained by a gas well is greater than the area that would be drained by an oil well?

The Witness: That is generally true; oil wells are usually spaced more closely than gas wells.

Mr. Turner: Would the Sunday Creek situation illustrate anything along Judge Geiger's question?

The Witness: Yes, I think it would. The Sunday Creek lease I think—this particular one is about 6,500 acres; now that 6,500 acres is operated so far as the payment of rentals and the character of the lease is concerned; yet in that particular one, in the valuation, they have only taken 326 acres of it as being No. 1 operated.

Commissioner Geiger: They have not taken the whole 6,000 acres.

The Witness: No, sir.

Commissioner Geiger: Well, then I misunderstood you when you said, or when I thought you said that if a well is developed upon a particular leasehold you thereby from

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[fol. 1413] that time forward consider the entire leasehold as land and acreage that is being operated?

The Witness: Yes, sir, that is true so far as the book keeping and accounting is concerned, because the character of that lease has changed with reference to payments to be made on it but not so far as the valuation is concerned on it. In that particular case while it is one lease it covers a number of tracts in different places so it would not be fair to include that all as No. 1 operated unless there were some proven territory there which would prove that they were also likely to be productive.

Commissioner Geiger: In other words, for book-keeping purposes you transfer to operated territory all of a particu-

lar leasehold, but for valuation purposes you make an estimate of how much of that acreage is really drawn from by that particular well?

The Witness: And how much acreage surrounding that well is proven by that well or other wells.

Commissioner Geiger: I see.

Mr. Turner: Your Honor is mindful of the contention we have been making at all times, that the question here so far as the Ohio Fuel Gas Company's property is concerned, is not used and useful for a particular purpose, but we are valuing it for the purpose of showing good faith in the making of the gate rate.

Commissioner Geiger: I see.

Mr. Turner: I do not want to keep repeating that or butting in with objections. Your Honors understand our position, I think.

2100

[fol. 1414] By Mr. Butler:

Q. To make one matter definite, Mr. Seyffert, when a gas well comes in you allocate the lease to that?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.

A. Yes, sir.

Q. It is the same method with respect to each. Now I notice that in 1929 the Preston unoperated acreage was 2,841,330 acres, whereas the unoperated acreage of the Fuel Gas was 2,489,098 acres; do you know why the difference?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. One, the 1929 of the Preston, is of a different date; it is December 31st, 1929, whereas the Ohio Fuel is June 30th, 1929.

Q. That probably would account for it.

A. That is one difference at least.

Q. In other words, I was trying to be rather definite that the acreages are the same and that does not change the point of view.

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. That does not change the fact; they are about the same.

Commissioner Geiger: May I ask this right there, as to the unoperated acreage allotted to the Preston and the unoperated acreage to the Ohio Fuel Gas, are they the same

2101

[fol. 1415] identical acres?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.

The Witness: Practically so; I do not say they are the same in all cases but in a vast majority of it it is the same acreage.

Commissioner Geiger: So that your acreage appears both with the Preston and the Ohio Fuel, the same identical acreage?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

The Witness: With the exception—with possible exceptions, I would say that is practically true.

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[fol. 1416] Q. Are there double rentals paid on these leaseholds, a rental for oil and a rental for gas?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Are you speaking for operated? As you said awhile ago, if there is an oil well, the land owner would be entitled usually to one-eighth of the oil; that would be the royalty for that well. If there was a gas well on that same lease he would be entitled to his price per well for that well.

Q. But if you get an oil well you do not have to drill further for gas?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. That would depend somewhat upon the terms of the lease itself; also would depend upon the development around with reference to offset wells. Smaller leases usually—when a well is drilled on a smaller lease at least it stops the delay of land rental and substitutes for that the royalty on the well, which ever it is, an oil or a gas well.

Mr. Butler: Mr. Turner, those huge volumes you showed me, do they give copies of the leases or merely analyssis of their terms?

Mr. Turner: They are photostatic copies of the leases, Mr. Butler, and classification; they are classified; there are

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[fol. 1417] several classes of leases, and by looking at two or three you can get the typical classes.

Mr. Butler: Yesterday I might have asked Mr. Seyffert to examine all those for me but I know today he will not do it so I think the fair thing for me is to go over these and then ask Questions about them.

The Witness: There are about 30 or 40 thousand of them.

Q. I know, but don't you engineers do spot checking?

A. You will find that in those papers. They are very nicely spot-checked.

Q. One for every ten or twenty miles?

A. I think you have a copy of the different kinds of leases—one where the terms differ.

Q. And a number of each?

A. You have the total number of leases and total acreage.

Q. Well, now, what about the rentals, because that comes within your department, what about the rentals on the unoperated leases?

A. Well, who pays it, do you mean?

Q. Yes.

A. The Ohio Fuel Gas Company.

Q. Why? Does that go into its annual operating charges?

A. Yes.

Q. Far be it from me to suggest that as a reason; the two things go together.

Mr. Turner: But, as I understand you to say, that rental is all reimbursed if the well goes to the Preston?

The Witness: That is right.

By Mr. Butler:

Q. Who would not be glad to have a good oil well handed over to him for the delayed rental?

2110

[fol. 1418] Mr. Turner: Or who would not be glad to have a good gas well handed over to him for the delayed rental too?

Mr. Butler: Two a year.

Mr. Turner: Well, relative sizes——

By Mr. Butler:

Q. Now there are many of those leases where you pay so much flat a year.

A. Do you mean the unoperated?

Q. Yes.

A. It is usually based on so much per acre; there may be some where it is just a flat sum for a certain lease; a flat sum for a certain lease; I do not know that there are, but there may be.

Q. And if you bring in a gas well that is usually a flat payment, isn't it?

A. Yes, in this part of the country particularly, those are flat payments.

Q. So much per well?

A. So much per well.

Q. Per year?

A. Yes, sir.

Q. What is the average of that?

A. $200.00 to $300.00, I think.

2118

[fol. 1419] . . . . . .

Cross-examined by Mr. Butler:

Q. I think we might as well go back to the gas acreage. I requested the number of wells by counties and you have given that in respect to the Fuel Gas, haven't you?

A. Yes, sir.

Q. But not in respect to the Logan—I mean in respect to the Preston?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. No, I have not.

Q. I do not believe at this time that that is essential. I think the other answer will be all for the present. And you have also responded in respect to the acreages. Now I asked you the amount at which the total operated and unoperated acreage is carried on the books?

A. Yes, sir.

Mr. Turner: Do you want him to read it?

Mr. Butler: Well, it is in the form of an exhibit, isn't it?

The Witness: Yes, sir.

Mr. Butler: I think the way he makes up those exhibits; this will be City's Exhibit No. 27.

2119

[fol. 1420] And thereupon the Document last above referred to is marked for purposes of identification herein as City's Exhibit No. 27.

By Mr. Butler:

At the time you purchased the Logan—and I am considering City's Exhibit No. 27 now—at the time you purchased the Logan—I think you better strike that out. At the time the Fuel Gas Company purchased the Logan how many operated acres did the Logan have?

A. 115,923.

Q. And how many unoperated?

A. 554,553.

Q. Can you tell me from your other exhibits there how many operating wells it had at that time? It is on one of those exhibits?

A. That is on Exhibit 24.

Q. And how many?

A. 1,090.

Q. Now what was the book value of the operated and unoperated acres at that time?

A. The book value of the two together was $6,346,979.05.

Q. And that is what you carried over to the books of the Fuel Gas at the time of the purchase?

A. That is right.

Q. Now at that very time, at the time of this purchase and before the Logan acres and wells were added, how many operated acres and how many unoperated acres and how many operating gas wells did the Fuel Gas Company have?

A. That is shown on Exhibit 24 as of June 30th—the number of wells.

Q. That would be very comparable, wouldn't it?

A. Yes, sir; just a few dollars difference; and the acreage—the acreage is on 26.

Q. Give me the Fuel Gas operated acreage at that time?

A. 347,306.

2120

[fol. 1421] Q. And the unoperated—

A. Pardon me; that includes the Logan; that 347,306 includes the Logan; it would be 347,306 less 115,923.

Q. I make it 231,483.

A. I make it 231,383.

Q. Well, I suspect you are right. I will change it. And the unoperated acreage?

A. 1,933,545.

Q. And how many operating——

A. Pardon me, that is wrong; 1,934,545.

Q. A thousand of those acres wouldn't mean anything.

A. Not among friends.

Q. And the operating gas wells, please; how many gas wells at that time?

A. 2,475 gas wells owned by The Ohio Fuel Gas Company at that time, and 1,090 by the Logan.

Q. And what was the book value as shown by your records of the Fuel Gas, operated and unoperates, leases?

A. I am taking it again at June 30th; $2,234,570.00.

Q. And after you combined them you simply added the $2,234,570.00 to the $6,346,979.00?

A. And made a total at that time of $8,581,549.00.

Q. On your books when you speak of the book value of your leaseholds operated and unoperated, does that include the gas wells themselves?

A. No, sir.

Q. They are carried separately?

A. Yes, sir.

Q. Can you give me the book value of your 1,090 operating gas wells at that time in the Logan?

A. Yes, sir.

Q. Give me that.

A. The book value of the Logan Gas Company wells June 1st, 1929, 1,090 wells—I cannot give you that now, Mr. Butler.

Q. Oh, I understand. Also get it for me for the 2,475 2121

[fol. 1422] wells?

A. All right.

Q. I assume, Mr. Seyffert, that the book cost of which you speak is what, as a layman, I think of as the material costs of a well and the construction costs?

A. Of the wells,—yes, sir, it would be the drilling of the well, the casing that is in it and the equipment to shut it in.

Q. What has been the practice of the Fuel Gas Company, and for that matter, of the Logan, in respect to whether you included in your operating charges the construction cost of these wells?

A. In speaking of The Ohio Fuel Gas Company first, since I have had anything to do with them, the construction costs have all been capitalized; and so far as I know, of the Logan, they have also been capitalized. Years ago the portion of the construction costs were not always capitalized by all companies and to answer that definitely I will have to look up when I find out these wells and see whether or not some part of it has not been capitalized.

Q. What is the average age of these 1,090 Logan gas wells, the average age at that time?

A. I think some one else—I did not do this—some one else figured out the life of those wells, and I think it was from seven to nine years.

Q. Well, you mean that was the average life of them; and that is all right; I am glad to get that; but what I had in mind was the average age; I should not have said "life;" average age of the wells at the time they were taken over?

A. I do not know that.

Q. I suppose that is not difficult to get at; each well has its place, its record of birth, in a book, I guess?

2122

[fol. 1423] A. It has if we drilled it.

Q. Well, I imagine the Logan kept the same thing. By the way, in the drilling, do you drill your own wells or do you have them done by contractors?

A. In recent years we have been drilling most of them; there was a time when we contracted a good many; we still contract some of them.

Q. But the very great majority now are drilled by your own men with your own rigs?

A. The last two or three years the majority has been, yes, sir.

Q. And that is true of the Preston?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, sir.

Q. Does the Fuel Gas drill the wells for the Preston and bill them for the cost?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Yes, sir.

Q. All of the Preston wells?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. I could not say all of them, no; that would depend upon where they were.

Q. Well, put it a little differently; I got the impression that substantially all of your Preston wells were drilled by the Fuel Gas?

2123

[fol. 1424] (Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. I think so.

Q. Does the Preston Company carry much drilling apparatus of its own?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. I think not.

Q. Well, take last year; do you remember how many of the Preston Oil Company's wells the Fuel Gas Company drilled?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. No, I could not say; I would not remember that; I did not have anything to do with that.

Q. Well, it comes onto your books though?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

A. Oh, I can find out.

Q. It would be rather interesting, I think, for 1929 and 1930, let us say. The Preston Oil Company drilled 72 wells in 1929 and 49 in 1930?

(Question objected to by The Columbus Gas & Fuel Company; objection overruled; exception by The Columbus Gas & Fuel Company.)

(No reply.)

2124

[fol. 1425] Q. Coming back to the inclusion in capital account of the construction costs of these wells, how far back do you say your investigation went, so that you can speak definitely of the time back to which you are sure the construction costs of the wells were carried into capital?

A. I can go back to 1924 on The Ohio Fuel Gas Company definitely, but the Logan I cannot go back that far because I had nothing to do with that until 1926. From 1926 on I will say they have been capitalized.

Q. Well, was there a study made of the age of the 2475 wells of Fuel Gas as of June 30th, 1929?

A. Such as an average age of the wells now in existance; I think not; I do not think there has been any study of that sort made.

Q. I assume though that the records are so perfectly kept—and that is not cynicism—that you do know exactly when each well came in, what year?

A. I would have to qualify that again by saying if we drilled the well; we may have purchased wells from other

companies, and about which we would not have that record.

Q. In other words, some of your present wells——

A. May have been purchased.

Q. But if they were Logan or Fuel Gas Wells I think you would have that?

A. I think I would.

Q. When did you become attached to the Logan?

A. I think in 1927.

Q. At the same time you became attached to the Fuel Gas?

A. No, I was with the Ohio Fuel Gas before that; I came to the Ohio Fuel the latter part of 1924.

Q. Oh, yes. Now when you were on the stand some ten

2125

[fol. 1426] days ago we were discussing—at least we mentioned the original costs of the Logan Gas lines; I think we agreed probably that you already had a compilation or study which showed their costs, their original costs, up to December 31st, 1924, and then I suggested that you take the actual costs as shown by the books and bring that up to the date when the Fuel Gas Company took over the Logan property?

A. You asked me a question similar to that, yes.

Q. Did you make such a compilation?

A. I could not find the data from which to get those original costs; I do not know how they were compiled because I was not there, for one reason; but I did give you in this Exhibit 27 the way our books stood at December 31st, 1924, and also, again as of how they stood on June 1st, 1929, and the subtraction made there for you.

Q. Yes, I quite understand that, but this was a separate and a different thing from that. Here is what the books show?

A. Yes, sir.

Q. This other was a study; as I understand, in that rate case there was a study made of the Logan Company which showed the original costs up to that time; now I am speaking without definite knowledge; it may have been a study made by somebody on the other side, but that is not my understanding.

A. Well, I don't really know who made it, Mr. Butler; I know nothing about it.

Q. Well, don't you have a copy of that in your file?

A. I have not, no; there may be a copy in the rate file; I do not know about that. The Commission may have a copy of it.

Q. And you have no other way of showing the actual costs

2126

[fol. 1427] for the leaseholds and properties purchased between December 31st, 1924, and the time that the Fuel Gas took over the Logan property?

A. Nothing other than [illegible] represented by the difference in the book value.

Q. Well, of course——

A. Of course there is [illegible] reduction of acres there.

Q. Well, now I [illegible] the same thing for The Ohio Fuel Gas Company; are you [illegible] able to give me the actual original costs there?

A. I doubt it very much. I [illegible] do not see how I cannot think now of any way to get it.

Q. Well, you can [illegible] surely the actual costs of all leaseholds secured from [illegible] the time you came there in 1924, can't you?

A. Yes, sir.

Q. Well, then as [illegible] and the executive officer in charge of the accounting [illegible] of The Ohio Fuel Gas Company you say that as far as you [illegible] know there is no way of getting at the actual costs of [illegible] the leases taken prior to the time you came there unless [illegible] are shown or reflected in the book values that were [illegible]?

A. I say I do not [illegible] whether I could or not. I am not sure whether I can or not. [illegible] I do not know whether the records will give me the [illegible] and the information.

Q. Well, how [illegible] understand it, Mr. Seyffert, that you have not completed your [illegible] examination of that particular thing?

A. No, I do not [illegible] understand that. I have told you just now, and I [illegible] with them I do not know now of a way by which I can do it. [illegible] will have to make a study of it.

Q. Well, from [illegible] time is important. I realize that from Mr. [illegible] point of view it is

2127

[fol. 1428] wholly unimportant [illegible] and extraneous, but we do want that if we can possibly [illegible] of course, it it is impossible, there is no necessity [illegible] of worrying too much about it, but at lease you can give [illegible] the actual losses and the actual

costs for The Fuel Gas Company since you came there in 1924?

A. I think I can.

. . . . . .

5146

[fol. 1429] Cross-examined by Mr. Butler:

Q. You are still the same Mr. Seyffert that has been testifying?

A. Yes, sir.

[fol. 1430] 5147

. . . . . .

Q. In keeping your accounts when you purchase a lease and pay a consideration for the lease, where does that consideration go? Into fixed capital under leaseholds?

A. Yes, sir.

Q. That has certainly been your practice in '28, '29 and '30, hasn't it?

A. I would say so, yes.

Q. Well now, do you carry into that amount, carry it over into fixed capital under leaseholds, anything except the mere consideration for that lease?

A. No, sir. Well I better correct that. We, first of all, charge to capital the consideration, and then we attempt to divide the lease man's expenses, and charge that in also as cost of obtaining.

Q. Anything else?

A. No, sir.

Q. What about attorney's fees?

A. I don't think they are charged in this.

Q. What about the abstract fees?

A. Abstract fees and recording fees would go along as a part of the cost of obtaining.

Q. Well, I suppose during those years, as a matter of

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[fol. 1431] fact the attorney's work in respect to those leases is done largely by someone that you have as a general employee of the company working for you, giving all of his time to the company, on a salary.

A. Yes, and I do not think that man's time is charged to the capital or cost of obtaining leases.

Q. What salary do you pay him?

A. Well, there are several different men working on that work.

Q. How many?

A. I think there are three at least.

Q. What is the total salaries of the three?

A. I cannot tell you exactly. I think it would run about $1,500.00 a month, $1,200.00 or $1,500.00 a month.

Q. For the three?

A. For the three.

Q. They do not give all of their time to purchases of leases?

A. Not all of it, no.

Q. What part of it?

A. I could not answer that.

Q. Haven't you some idea?

A. No, I have not.

Q. No part of that is carried over to this capital charge?

A. I think I am correct in saying that it is not. It might be with the abstractor, one man who has the title of abstractor, I would have to look it up. It might be that his salary is carried over. I am not sure.

Q. Your abstractor is one of the attorneys?

A. In that sense.

Q. He is one of the three?

A. Yes, he is one of the three.

Q. Frankly, I thought that his salary was carried over to your capital account, but you are not sure?

A. I am not sure, no.

Q. I wish you would look it up and tell us.

A. Yes.

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[fol. 1432] Q. Then taking those years, if I understand you, if you take your additions to leasehold capital account — I am not now talking about net additions, but the gross — that will represent what you paid, we will say in cash, for the lease, your abstractor's compensation, your recording fees, and the expenses of the men who secured the lease; am I right about that?

A. Yes, sir.

Q. But no part of the compensation, I mean the salary of the man who is securing the lease?

A. Yes, I think the lease man's salary and expenses.

Q. Oh, salary and expenses?

A. Yes, whatever the cost of obtaining it is, as far as we can determine it.

Q. Well, then may I put it this way, lest we misunderstand each other, that those charges to capital account under leasehold reflect all of the costs of acquiring the lease except possibly the proper share of the salary of the year-time lawyer in your employ who examines into the title.

A. Well, there are other things besides that. That is no general overhead charged in there for the time of the office in looking after it, and the geological surveys and things of that sort.

Q. Tell us about the geological survey. How do you manage that?

A. Well, I just can't answer you offhand. I think it is all charged directly to our expenses, rather than capitalized and attempted to be spread over the leases.

Q. You are sure that no part of it is capitalized?

A. I am pretty sure.

Q. Under what head in your expenses do you carry that?

A. I cannot answer that. I would have to look it up.

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[fol. 1433] Q. I am not critical, but I hardly know how to pursue it further until you do look it up. Here is what I want, Mr. Seyffert, you can see. Take 1929 or 1930, you went out and bought leases, you added leases to your holdings. Now, they cost you money. Where did those charges *to*? What went into the capital and what went into your general expenses, and where, under your general expenses, are they charged if they went in?

A. We have given you a statement—I think it is Exhibit No. 50, City Exhibit 50, in which we gave you the total amount charged to capital and the total number of leases—the total number of acres required.

Q. Yes, I know, but what I want to know is what that capital represents?

A. Yes.

Q. I am getting at the cost of the lease, and how much of it went into capital and how much of it was charged in as expenses?

A. I am telling you how much in total. I am not telling the amount, but I am showing you where you can find the total for the year, any of those years that is was charged in, and the total number of acres.

Q. That is the capital amount?

A. Yes.

Q. Your annual reports would show that, too?

A. They might. They might show the net additions rather than the gross.

Q. But you see what I am getting at now. It is a refinement on that.

A. It is a refinement I have not made.

Q. Yes, I know. I am not finding fault, but I think you understand what I do want. I want to know what you consider the expenses of obtaining leases, the costs and expenses. Now, when you told me that and enumerated them—I am not now particularly dealing in dollars, but in

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[fol. 1434] principles—I want to know which of those go over to those capital charges and which are retained in the expenses and paid, and where, under what headings, they appear in those expenses?

A. I would have to make an analysis of those.

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[fol. 1435] Commissioner Geiger: Mr. Seyffert, will your books disclose the value, based upon purchase price, of your leaseholds?

The Witness: Our books will show what we paid on some purchases, yes, sir.

Commissioner Geiger: All of them?

The Witness: All of them?

The Witness: Well, I can't answer for the time before I came there, but the purchases that were made in the last four or five years, it will. You will understand when a purchase——

Commissioner Geiger: Would that be——

Mr. Turner: Won't you let him answer?

The Witness: You understand when a purchase is made of a going concern with all kinds of property, that the amount represented there for the acreage may not be what you would term the true cost of it, because it may just be an arbitrary sum. In other cases the wells and tangible

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[fol. 1436] property, pipe lines, and so forth, that were purchased as a part of the whole would be inventoried, and the balance of the amount placed in leasehold accounts.

That, divided by the number of acres, would give the average amount per acre that is carried on our books.

Commissioner Geiger: Well, your books do disclose the book value of your acreage or property, with the exception that in some cases there might be something else than acreage included in your purchase price?

The Witness: Those figures are already in the record, City 27 and City Exhibit 50 and 50-A will give you those.

Commissioner Geiger: Have you made an analysis of it to find out what it discloses as to the book value of your acreage, your various acreages? Wait a minute. City Exhibit what?

The Witness: 50.

Mr. Turner: 27.

The Witness: 27 first and then 50 and 50-A.

Commissioner Geiger: Now, have you figured from those exhibits what your books disclose to be the book value of your acreage property?

The Witness: It is in the exhibit. The number of acres is there also, the number of acres and the amount of money.

Commissioner Geiger: Have you worked it out to see how much it amounts to per acre?

The Witness: I have not, no, sir.

Commissioner Geiger: It is possible to do so from the

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[fol. 1437] exhibit?

The Witness: Yes, sir, it is just a matter of division.

Mr. Turner: On the books is operated and unoperated. You remember we went into that.

Commissioner Geiger: Your books are divided into what is operated, which would be particular No. 1, and non-operated, which would be 2, 3, and 4, generally speaking?

The Witness: Yes, Your Honor. You remember at the time that question was gone into, I explained that our books showed, if I remember correctly, 358,000 acres, which we called operated as far as the books were concerned, yet Class 1 at that time had only 291,000 acres in it, the operated acreage being called operated by reason of the conditions of the lease having been complied with.

Commissioner Geiger: You have not worked it out to find out how much per acre that is?

The Witness: I have not. And don't misunderstand me. We do not have on our books a separate amount of money

representing the operated and another amount representing the unoperated. We just have the total of the two.

Commissioner Geiger: Well, is there any way from that total to find out the value of the operated against the non-operated acreage?

The Witness: Your Honor, I think that has been done in classifying the acres as we did in the 1, 2, 3 and 4, and then having men who are familiar with the property and with things of that sort placing a value upon it.

Commissioner Geiger: What we were trying to get at is what your books showed you paid for that property, irre-

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[fol. 1438] spective of what somebody says it is worth.

The Witness: No, the books will not show that. The books show that we have so much money in there representing those leases, but that is not necessarily cost.

Commissioner Geiger: Well, it is at least cost. It is not less than cost.

The Witness: I think it is less than cost in some cases.

Commissioner Geiger: Wouldn't your books, if kept in the detail that such books are usually kept, disclose how much you paid for your acreage, whether it be operated or non-operated?

The Witness: No, I don't think so. You see when these various companies are purchased and we take over other companies, when we spread that on the books, we don't make a separate valuation then of the acreage, and consequently in some cases it is on the books at quite an arbitrary figure, a figure that I know is not the value of it, and anyone would know was not the value of it.

Commissioner Geiger: It is not the question of what the value of it is, but what you paid for it.

The Witness: Or it might not be the proportionate part of the purchase. One man might consider that he paid at a certain rate for the acreage in the total purchase, and it might be on the books at something else, because somebody else put it on there.

Commissioner Geiger: The long and the short of it is there are already exhibits which you have named which would disclose that?

The Witness: Which show the figures that are on the

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[fol. 1439] books, yes, sir.

Mr. Turner: May I ask one question, Mr. Butler?

Mr. Butler: Yes, certainly.

By Mr. Turner:

Q. Prior to 1913, there was no uniform classification of accounts in effect, was there?

A. Prior to 1921, I think.

Q. Yes, prior to 1921. Prior to 1913 there was no Commission of this sort, but a Railroad Commission. Prior to 1921 the books were kept as each company wanted to keep them?

A. That is right.

Q. You did not have the supervision of these companies prior to what year?

A. 1925.

Commissioner Geiger: Let me put it in another way, Mr. Seyffert. Your books do disclose some of the more recent purchases of leasehold acreage?

The Witness: Yes, sir.

Commissioner Geiger: And what you paid for it?

The Witness: Yes, sir.

Commissioner Geiger: And the operated, as distinguished from the non-operated?

The Witness: Not necessarily. Not necessarily that division. I think we can show you some purchases of acreage as a whole, and we can show you how much of that acreage is operated and how much is non-operated.

By Mr. Butler:

Q. Mr. Seyffert, when a lease is abandoned, do you take it out of capital?

A. Yes, sir.

Q. How do you take it out of capital? What do you take out?

A. That is quite a difficult thing to determine sometimes,

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[fol. 1440] Mr. Butler. We have endeavored to keep records so that we could tell approximately how much is represented on our books by that list, and we charged off that amount, but in the majority of cases I think we have simply had to take an average of the so-called book values.

Q. Well, the leases, the way you keep your books now, if you acquired a lease this year and wrote it off next year,

you would be able to take out a specific sum?

A. We would.

Q. But as to many of the old leases, you simply take your book value and make the best estimate that you can?

A. Yes, sir, that is right.

Q. But the whole method is to charge out the proper amount of the book value?

A. That is the attempt, yes.

Q. And in the last few years, the book value of a lease and the cost of a lease are practically the same?

A. Not necessarily. I don't admit that we get all of the cost there.

Commissioner Geiger: That proportion of the cost you do not get there is charged in as operating expenses?

The Witness: It might be. I would want to think of the answer a little bit, Your Honor. I don't know that I can answer you right offhand as to that.

Q. Mr. Seyffert, of course, you say it is not all taken out of capital when the lease is surrendered because you are thinking of some of those things that never went in. Of course, if it never went in, it would not be taken out.

A. I mean to say—I thought I got it straight—we try to take out of capital that which is in capital.

Q. And the rest having been absorbed in operating

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[fol. 1441] charges would not be a matter of consideration in that respect?

A. In that respect, no.

* * * * * * *

[fol. 1442] Mr. Seyffert testified on Direct Examination as follows:

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[fol. 1443] Q. Mr. Seyffert, have you had prepared a table showing the acres of leases transferred to Class One in the years 1927, 1928 and 1929?

A. Yes, sir, I have.

Q. I hand you what has been marked as Company's Ex-

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[fol. 1444] hibit No. 179 and ask you if that is such an exhibit?

A. Yes, sir.

Q. In other words, 46,333 acres have been transferred into class one during the three years?

A. That is right.

Mr. Turner: We offer in evidence Company Exhibit No. 179.

Mr. Butler: Mr. Turner, let me inquire of the witness.

Mr. Turner: Go directly to the witness, Mr. Butler.

Mr. Butler: Mr. Turner, let met inquire of the witness through you——

Mr. Turner: Go directly to the witness, Mr. Butler.

Mr. Butler: It will help us in our study.

Mr. Turner: Sure. If at the end of any of these exhibits you want to stop and ask anything, don't hesitate, but stop me and go right into it.

Mr. Butler: Those transfers are acreages already possessed by you?

The Witness: Yes, sir.

Mr. Butler: It is not new purchases?

The Witness: No, sir.

Commissioner Hopple: It may be admitted.

And thereupon the table above referred to was offered, introduced and admitted in evidence on behalf of the Columbus Gas & Fuel Company, and is herewith submitted marked Company's Exhibit No. 179, and made a part hereof.

Mr. Turner: Mark this Company Exhibit No. 180.

And thereupon the paper writing above referred to was
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[fol. 1445] marked for purposes of identification as Company Exhibit No. 180.

Q. Mr. Seyffert, is there a practice in the Ohio Fuel Gas Company of, in lieu of drilling, paying the royalty prescribed in the lease in cases where the company might be required to drill on No. 2, 3, or 4?

A. Yes, sir.

Q. I wish you would, in a few words, explain to the Commission how such situations come about?

A. It comes about from the fact that we will have a well on a certain tract of land which, of course, will be included in our No. 1 acreage. The tract next to it or the owner of the tract next to it, if he thinks he is being damaged

by the proximity of the well on that lease, will ask us to drill an offset well to protect him and get for him his payment due him under the royalty agreement. In some cases we feel it would be poor business judgment to spend the additional money to put down another well when the well that is already there will answer the purpose; and through which we will get the amount of gas out of that area in due time. And so as not to deprive the land owner of his right, we enter into an agreement with him, whereby he will accept the royalty payment that he would have gotten if we had drilled a well, and we save the cost of drilling the well, although the farmer then is satisfied as getting all he would have gotten if we had made the additional investment in the wells.

This list, by the way, shows that at that time, June 30, 1929, there were 99 of those payments being made, which you can readily see, if those wells were drilled at eight

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[fol. 1446] or nine thousand dollars apiece, represented a saving in investment of eight to nine hundred thousand dollars.

Q. Now, where is the royalty charged on your books?

A. It is charged into lease rentals.

Mr. Butler: That is, you just make a new contract, a supplemental contract, with the land owner, and carry it in the same account?

The Witness: Carry it in the same account. It is still carried in unoperated leases. A different amount of rental is charged to unoperated lease rentals.

Q. Why isn't that a production expense?

A. I think it is and for the information of the Commission, I will say that in later years we have charged it to royalty account. But at this time that we are talking about, or prior to that time, it was not.

Mr. Turner: We offer in evidence Company Exhibit No. 180.

Commissioner Hopple: It may be admitted.

And thereupon the list above referred to was offered, introduced and admitted in evidence on behalf of the Columbus Gas & Fuel Company and is herewith submitted, marked Company Exhibit No. 180 and made a part hereof.

Q. I believe you stated the cost of those wells would have been somewhere between seven and eight hundred thousand dollars?

A. I said eight or nine hundred thousand dollars.

Q. Would the company get any more gas through those wells than it gets now?

A. Not eventually, no, sir.

Mr. Butler: Well, there were cases where you were really

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[fol. 1447] draining the other fellow's property.

The Witness: This is a recognition of that. If we did not think that he had a claim for an offset well, we would not spend the money for the purpose.

. . . . . .

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[fol. 1448] By Mr. Turner:

Q. Mr. Seyffert, I hand you what has been marked as Company Exhibits 181 and 182, and ask you if those have

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[fol. 1449] been made under your direction from the records of the Ohio Fuel Gas Company?

A. They have.

Mr. Turner: That is all that I want of Mr. Seyffert at this time.

Commissioner Geiger: Mr. Seyffert, your plan is quite clear except——

Mr. Turner: Which one do you refer to?

Commissioner Geiger: Production in reserve by company, what do you mean by that, you mean that is the reserve in the gas wells or reserve in the pipes?

The Witness: No, that is the reserve in the Number 1 classification of leases.

Commissioner Geiger: You mean that is your estimate of the reserve still in the ground?

The Witness: That is right, in the Number 1 leases, yes, sir.

Chairman Hopple: This is 181 and '2?

The Witness: The one with the yellow on, Mr. Commissioner, is 182, and the one with the green only is 181.

. . . . . .

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[fol. 1450] Examined by [illegible]

Q. Referring, Mr. [illegible] Exhibit Number 50, there is an annotation at the [illegible] Exhibit Number 50 which shows [illegible] during the year, (A) 9,744 acres of operated acreage, [illegible] acres of unoperated acre[illegible] total gross additions [illegible] total amount $830,445.31, equal to $30.94 per acre. [illegible] that data contained in the City Exhibit which shows [illegible] the enumeration of the leases, I have forgotten the [illegible] but the one which we were asked to take off this [illegible] that showed the considerations, do you know the [illegible] and to which I referred?

A. It is the exhibit of [illegible] negatives, I believe.

Q. Yes. From which [illegible] exhibit was made —

Q. Yes.

A. No, sir, this [illegible] on these negatives.

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[fol. 1451] Q. Then take [illegible] down there, (B), gas purchased during the [illegible] acres of operated, 379 acres of unoperated, total amount $39,460.45, equals $55.21 per acre. What is that on that exhibit?

A. It was not.

Q. Were there [illegible] from that exhibit of considerations paid?

A. I don't like to [illegible] but there were other purchases for which [illegible] were placed on these negatives.

Q. In other words, [illegible] understand that an attempt was made to get [illegible] in exhibit form and then abandoned.

A. It was.

Q. And all of the [illegible] from the books of the company was not put [illegible]

A. That is correct.

Q. If the Ohio [illegible] were to be confined to Number 1 leaseholds, would [illegible] figures have to be revised?

A. Yes, sir.

Q. If the Ohio [illegible] were to be confined to Number 1 leaseholds, would it be necessary to drill further offset wells on Number 1?

A. Yes, it would if Number 2 and other acreage belonged to other people, it would probably cause a good deal of offsetting on Number 1.

Q. Otherwise, whoever drilled Number 2 then would drain Number 1, would they not?

A. That is true.

Q. Can you give me the percentage over a three year period of the gas furnished to the Ohio Fuel Gas Company by independent producers?

A. The percentage of gas furnished by independent producers based upon the average over the period is 22.3 per cent.

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[fol. 1452] Q. Now, what percentage would that be of the maximum demand?

A. It would be 13.9 per cent. of the maximum demand.

Q. Now, as to the production and taking into consideration the purchased gas, where are the overheads of the company absorbed, by its own production system, or can you spread them on to the purchased gas?

A. Well, they are necessarily absorbed in a part of the production costs of the company.

Q. What has been the history of the natural gas companies in Ohio that did not have sufficient reserves?

A. The usual outcome of a great many of the smaller companies who did not fortify themselves with reserves is that they went out of business, either had to sell out or become defunct because of inability to furnish service to the customers and make ends meet.

Q. Well, what is the effect of having only Number 1 on costs, do costs mount? If so, why?

A. If we were confined to the use of Number 1 acreage only, we would very shortly run ourselves into very greatly mounting costs on the one hand or else a decided shortage of gas on the other, and it is the latter that would be more likely to occur, because if we were limited to Number 1 acreage, which, as I recall, is some 291,000 acres, and estimates have been made of reserves under that of say approximately 300 billion cubic feet; at the rate that we are now producing, assuming that we could buy gas from independents and West Virginia in the same amount that we are now buying, the amount of gas in the ground would only be equivalent to about a ten year period and if we were not

able to buy this gas from other sources, the amount of gas in the ground would only be equivalent to five or six years'

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[fol. 1453] supply if we could get it out of the ground in that time, which would be impossible. If the West Virginia company were further restricted to only the use of their Number 1 acreage, we would very certainly be compelled to get along without that gas for Ohio, because they could not in turn produce the amounts.

Now, I would like to go a little further there to explain the situation. You have a reservoir with an estimate of a certain amount of gas in it. We have had on that reservoir at the time, December 31, '29, approximately 3,600 wells. Taking that, together with the dry holes that have been drilled, and the abandoned wells also on Number 1, would indicate that there has been a well drilled to somewhere around from 65 to 75 acres. Now, the company, if they wanted to take the gas out of that area in a proper and economical way, would perhaps not drill any more wells at all on it except those wells that are necessary by reason of lease requirements or offsets by others, that is, wells that we would have to offset others in order to protect our interests and protect the interests of our own leases. Now, if an attempt were made to take that gas out of that area in a shorter period, it would mean immediate depletion of the rock pressure, the rock pressure would immediately go down and each well would produce a correspondingly smaller amount of gas or it would take a longer time to get the gas out. Ultimately, the full recovery could be gotten, but it would take a longer period of time.

Now, if that area were drilled without regard to the cost, we would have to put down two or three times as many

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[fol. 1454] wells which would reduce the rock pressure. Gas would then flow very much more slowly in the opening made by the well, which in turn could not get out of the well unless the line pressure were reduced, which would mean additional pumping equipment to reduce the line pressure in order to take the gas out of the ground and get it to the market, because, assuming again the market demands being as they are today, we would still need the discharge pressures at the compressor stations that we now need, but the difference between the discharge pressure and the intake

pressures would be a great deal different, necessitating therefore a great deal more power to bring that gas from a low pressure, which would be necessary to take it out of the ground, and the higher pressure necessary for the transmission of it to the markets. The result would be that recovering the quantity of gas that is in that area, the price would just mount, two, three, four times, just up to a prohibitive figure, it just wouldn't be done.

The best answer I have to this whole thing is that the property was developed then, is developed now to the best judgment of the men who have been in the business all their lives, and the wells that were then on the property is what should be there in the judgment of the management.

Q. Would the number 1 acreage of the Ohio Fuel Gas Company be sufficient during the life of this ordinance under question here, that is, from November 1st or 12th, 1929, for five years forward?

A. It would not, except at a very prohibitive cost. Understand, there are enough cubic feet of gas in the ground, but it can not be gotten out in that period, at any cost that is within any reason.

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[fol. 1455] Mr. Turner: Well now, with the exception of some exhibits which we have sent for, we can go no further with Mr. Seyffert. We had expected to put him on tomorrow, and there are some exhibits being typewritten.

Mr. Huffman: What is the nature of those?

Mr. Turner: They won't bother you very much because they are income statements and balance sheets for the two Columbus companies for the period ending October 31, if we can get them, the latest figures we can get, simply putting in the latest figures available.

Commissioner Geiger: Mr. Seyffert, did I understand you to say 291,000 acres Number 1?

The Witness: Yes, sir.

Commissioner Geiger: And how many wells on that.

The Witness: There were approximately 3,600. Those figures are in the record, Your Honor.

Commissioner Geiger: Yes. I just wanted to get them here.

The Witness: Remember, the 3,600 are producing wells at that time. There have been other wells drilled which

were abandoned and also dry holes drilled, which makes the total number of holes drilled greater than that.

[fol. 1456] Mr. Seyffert testified on cross-examination:

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[fol. 1457] Cross-examination by Mr. Huffman:

Q. Now, in your lease contract with the farmers and property owners, don't you provide that a well must be drilled within a given time?

A. The well must be drilled within a given time, or a delayed rental paid in order to hold the lease.

Q. And in some instances the delayed rental which you have been paying up to the time that you should have drilled is increased if you do not drill within the time specified, and you continue right on with the lease, paying an increased delayed rental; is that correct?

A. You have not quite stated it right, no. There is a purpose for an increase. The purpose is that because of adjacent drilling, a well being within a radius of this other lessor's farm, which would cause him to claim an offset on account of that other well, and by reason of his claim for an offset well, we feel that he has a right to a well, but that it would be an unwarrant- expenditure to drill a well, because the gas company will be served and the gas will be taken from the ground through the investment already made. Now, the farmer has his right, and he could force us to drill that well.

Commissioner Bricker: Under the terms of the lease?

The Witness: Under the terms of the lease, he could force us to drill that well. If we drill the well, what he would get out of it would be the well rental. And instead of going to the expense of drilling the well uselessly, we pay him. And he is satisfied.

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[fol. 1458] Q. That is not quite what I asked you, Mr. Seyffert.

A. Pardon me. I thought that is what you asked me.

Q. There are many of your leases that are not contiguous to No. 1 leases, as I understand it, in which your contract

reads, as I stated in the first instance, that you will drill within a given time, and if you do not drill within that given time, then an increased delayed rental will be paid.

A. None that I know of.

Q. You don't know of any?

A. Not that I know of. There may be exceptions to all rules, because we may have bought some leases from some other companies which would have some clauses in them that would differ from the usual. Now, you might run through our records and find just that thing. But that would be the exception rather than the rule. I don't know of any.

Commissioner Bricker: Do all of your leases have this offset well feature?

The Witness: No, that is not in the leases. It is just a matter of common right.

Commissioner Bricker: That is an arrangement that you make with the lessor regardless of the terms of the lease.

The Witness: If you own a farm and I own a farm and the company puts down a well on my farm and that well is doing you an injury, you can come into the court and force the company to drill a well on your property to protect your interest, the gas under your property, because you are getting an increased revenue.

Commissioner Bricker: The computation of this offset well expense or the expense of the avoidance of the offset

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[fol. 1459] well would not show up in a computation of the rentals paid under the leases, the delayed rentals paid under the leases.

The Witness: Up until the time it was included, as I say, in delayed rentals.

Commissioner Bricker: If somebody would sit down and figure your costs, there would be a discrepancy there because of this additional payment?

The Witness: Yes.

Q. That is, you would find more than you would expect to find if they had been paid according to their written arrangement?

A. If you could take every lease of the thousands and thousands of leases and compute the amount to be paid under each one, under all of the conditions, and total the others, there should appear in total charges to well rentals

an amount equivalent to the amount paid in lieu of drilling.

Q. But this acreage remains undrilled acreage?

A. It is.

Q. How do you know you are draining his land without making the test?

A. We don't exactly.

Q. Then you bring arbitrarily an acreage under your new system of accounting from No. 2 to No. 1 without actually having a producing well on it?

A. No, sir, you asked me the question. I answered the reverse of that. We do not bring that from Number 2 to Number 1. We leave it Number 2. On the books of the company we have only operated and unoperated. We leave that lease in unoperated.

Q. Then shouldn't the expense of that remain in delayed rentals or non-operating rental?

A. No, I don't think so. I think it should go as part of

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[fol. 1460] the operation. If we would go to the trouble and the unnecessary expenditure of putting down a well as the man demands, and as his lease demands, then the investment would go in a rate base and the royalty paid to him would go into our royalty expense, our production expense.

Q. Yes, but this can only result from an arbitrary action on the part of the company.

A. No, sir, it is not arbitrary on the part of the company by a long shot. It is a right that the lessor has and a right that he could enforce and compel us to drill.

Q. That is true, but in order to bring this properly into the way you now seek to include it, you would have to drill that acreage and make it productive acreage, wouldn't you, by having a producing well thereon?

A. I wouldn't say that.

Q. That is true before you begin to pay royalties, isn't it?

A. Yes, royalties as such. This is a payment in lieu of drilling. It has the same effect.

Q. Then doesn't it have the effect of breaking down your classifications between Numbers 1, 2 and 3, to which you have heretofore testified?

A. No, sir, it has nothing to do with it at all.

Q. You cannot see that it has any effect on that?

A. No, sir.

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[fol. 1461] Cross-examined by Mr. Huffman:

Q. This morning you testified concerning the addition to the operated and non-operated acreage as set forth in City Exhibit No. 50, I believe?

A. I made some reference to it, yes.

Q. And you referred to A and B, the additions under A and B?

A. No, I just referred to 50.

Mr. Turner: But there are notes A and B at the bottom.

The Witness: But there are notes A and B at the bottom, yes. There are exhibits 50 and 50-A, you notice.

Q. Your reference was to notes A and B within Exhibit No. 50?

A. Yes, sir, that is right.

Q. Can you identify for us the purchases that you referred to there under A and B?

A. Yes, sir.

Q. Will you please give us that?

A. I can give you one of them now. Maybe I will be able to give you both of them. A is the Muskegum purchase and B is the Hawk Syndicate.

Q. Is that an outright lease purchase that you refer to as the Muskegum purchase?

A. It was a lease purchase with some other property.

Q. How much physical property did that include?

A. The total purchase price was $1,015,000.00, as I recall.

Q. What was the consideration passing in this transac-

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[fol. 1462] tion, Mr. Seyffert? Was that securities?

A. I think it was cash.

Q. Cash?

A. Cash.

Q. Did you get any contracts with that?

A. Whatever contracts they had.

Q. Do you know whether there were any of any importance included?

A. Not without looking it up, no, I don't.

Q. Will you look that up?

A. Yes, sir.

Q. Now, the Hawk Syndicate purchase, did that include any physical property?

A. I don't remember that very well. I think there was a well or two along with this acreage.

Q. Do you have the consideration there?

A. No, I haven't the total consideration for that.

Q. Was that a transaction similar to the Muskegum in the way it was handled?

A. In so far as being a cash transaction?

Q. Yes, was it cash or a security transaction?

A. It was a cash transaction.

Q. Were there any contracts in it?

A. I don't recall whether there were or not.

Q. Will you look that up?

A. I will look that up.

Q. And let us know at the same time you report on the Muskegum purchase?

A. Yes.

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[fol. 1463] Cross-examination.

By Mr. Butler:

Q. Let me go back and ask another question. I think I was a little bit premature and made it unfair to you. When you speak about production in reserve, do you mean the largest amount you could get out of the wells or what you would normally get out of the wells?

A. That would have so many conditions attached to it, Mr. Butler, it is rather difficult to answer. What you can get out of the wells depends so much upon the line pressure that the well is working against, and that in turn depends upon your markets and the way the markets are handled by your compressor stations.

A. Yes, sir, I think I can explain this way, that we must always have enough wells and calculated production from those wells to take care of these peaks. You will note that the monthly average comes across a straight line and the reserve is also places on a monthly average, but you will also see super-imposed there the daily deliveries as best we could get them, which indicate that there are times when we are using practically all of our wells.

Q. That is not my question. I think I have not made myself clear for I know you are not trying to dodge me.

But you have shown on this 182 your total production, you use and your production reserve makes your total possible production, doesn't it?

A. Yes, so far as an estimate is concerned.

Q. Now, how do you find that total production? How do you calculate it? What effect do you give to a well? Is it the largest amount you could get out of it if you took every possible bit of gas, or is it calculated on the basis of the normal flow under normal conditions?

A. You are asking a question that does not exist in the gas business, Mr. Butler. The gas can only go out of the

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[fol. 1464] wells as fast as the pipe lines are able to take it from the production points to the delivery points. Now, that created a line pressure, against which the well pressure has to work. This is calculated by what we call minute pressures. A well is shut in and a gauge is placed upon that well and the gauge is observed, to see how rapidly that pressure builds up in one minute, five minutes and ten minutes. Then the amount of tubing is calculated in that case, that is, the depth of the hole, which would indicate what area has been filled up by the pressure back of that well. And by calculating that, it will show how much it is estimated that well will put in against the line pressure that is in effect at that time, and from such calculations our estimates are made.

Q. You know you have furnished us with histories of these wells by counties and townships, and you have given the initial open flow and the calculated production, the accrued production, the calculated daily production, annual capacity; you will remember we photostated some of the parts of the big exhibits, and we put them in as city's Exhibit 62. Now, are those the figures you used in working out that?

A. I just cannot answer you that, Mr. Butler, as to whether those particular figures you are referring to are the exact ones referred to here. I would have to go back to our depletion department to determine just the figures that went in to make this up.

Q. I would just like to have the fellow here who can answer the question. In other words, you have given us a calculated production. You have not only calculated it,

but you have graphed it by months, for three years. Now, you had so many wells at any given time; that is a definite
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[fol. 1465] thing on your books?

A. Yes. So many wells we had you say? Yes, that is definite.

Q. Now, how did you get the total of those wells? Because I am only dealing with wells of your company that make up this graph?

A. That largely is the basis of wells—undoubtedly that is calculated as referring to each well and the total of them would represent this.

Q. Do you know who the gentleman is that can give us the accurate, scientific information about that?

A. Yes, we can get that for you.

Q. Who is he?

A. I think that was made up by Mr. Roth and Mr. Cottingham.

Q. Which one should we examine to find out——

A. I should say Mr. Roth.

Q. He made the graph?

A. No, he did not.

Q. Who made that?

A. I can't tell you just who put the figures down on the graph. Probably somebody transferred it from the figures furnished him from these various departments I told you about.

Q. You see I don't know much about this. Again referring to 182, if that is a true graph, would the enclosed areas, of these daily fluctuations, I mean above the green, which is produced by companies—should the areas enclosed by those lines above equal the areas enclosed by those down below in the green?

A. You say should they?

Q. Yes, wouldn't that be the fact if it were a true graph?

A. No, sir.

Q. Has no relation to it?

A. It would have nothing at all to do with that.

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[fol. 1466] Q. Of course, 181 deals only in the two years I have been talking about with production by company in Ohio and production in reserve by company. Really the

white and the green there make up the possible production in reserve, don't they?

A. The white and the green on 181 are the same as the white and the green on 182.

Q. Yes, and make up——

A. It is expressed in a different way. It is expressed to show where we would be if we did not have West Virginia and the other producers, with out present production.

Q. In other words, when you have more produced by company, you have less production in reserve, as you have termed it?

A. Yes.

Q. In other words, when you have more produced by company, you have less production in reserve as you have termed it?

A. Yes.

Q. When you have more production in reserve naturally you must have less production by your company?

A. Yes.

Q. In other words, the total is a rather definite continuous line except as it is modified by wells going out and new wells coming in?

A. That is roughly it.

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[fol. 1467] Mr. Seyffert testified on redirect examination:

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[fol. 1468] The Witness: You were asking about the abstractor's salary. That is charged to fixed capital. It is charged to cost of obtaining leases. The salaries of the attorneys are charged to general law expense. The expenses of what we call our land or lease department here, the bookkeeping and the keeping of the records, is charged to operating expense. The lease men, their salaries, expenses and automobile expenses, are charged to cost of obtaining leases, which is a fixed capital item.

Mr. Butler: What salary do you pay to men for obtaining leases?

The Witness: I can't tell you that here. They vary.

By Mr. Butler:

Q. Well, you keep them on the payrolls?

A. Oh, yes.

Q. And the abstra

A. These that I ... often employ ... appear on the ...

Q. Your account ... much for abstract ...

A. Yes, sir.

Mr. Butler: ...

[fol. 1469] Mr. ... follows:

[fol. 1470] Counsel ... ask just one ... don't know whether ... some information ... newspaper that ... there was an ... at the well that ... County, Ohio. ... article that it ... inquiry that I ... or not if we ... that well and it ...

[fol. 1471] ... whether or not ... the depletion of ... by other existing ... or not, but I just ... that if a flowing ... initial flow of ... nished any ... of that field.

Mr. Seyffert ... out about that ... Commissioner ... that as a question ... thing.

The Witness: ... different kind ... are asking about ... we have gotten ...

many wells drilled, either on the territory which was then called Number 1 or on the territory which was called Number 2, and we would have a good many examples that would answer your question, rather than picking one well about which you saw a notice in the paper. I haven't personally had an opportunity to check up on this well.

Commissioner Geiger: Of course, I am just making it as a query as to whether or not the fact that new wells are being drilled in in old territory in which old wells have existed over a number of years and on which rock pressure has fallen to a considerable extent and the productivity of the well has fallen, whether or not such information as to new wells furnished any criterion by which we might judge

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[fol. 1472] as to the real depletion of the gas field.

The Witness: Well, I think there is an abundance of information of just that sort in the record, Your Honor. I recall Mr. Pepperberg's exhibits of the senior and junior wells. They would indicate that the second well was drilled and what results were obtained from it when it was drilled after the field had been more of less developed.

Mr. Turner: Do you know whether this well was drilled formerly in the Beren and now this last time in the Clinton sand over there?

The Witness: Well, I haven't definite information. I understood it was from a lower formation, but I haven't yet been able to check up to see anyone to get the information as to just what it was.

. . . . . .

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[fol. 1473] Q. Did you determine more closely the other day just how you fixed the amount that you charge because of abandoned acreage?

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[fol. 1474] A. Yes, I did. The acreage was acquired prior to 1923 and is taken off at the average at which it stood on the books, and then the acreage acquired in later years we tried to take off as nearly as possible at the cost, if the cost is known, and shown on the lease records. We then take out of our investment, the amount of that cost which is stated on that lease. But that is not possible in all cases. And where that is not possible, we have to take an average

Mr. Butler: Mr. Turner, would you object if some one under Mr. Seyffert and some one under Mr. Allensworth made up an analysis of 1928, 1929 and 1930 abandonments and charges, so that we could determine the prices at which they were charged out, and let it be presented as a joint exhibit or a commission exhibit?

Mr. Turner: We can get that, can't we?

The Witness: Yes.

Mr. Butler: All right, that will be very satisfactory.

Q. That acreage in 1930 that was abandoned, that was all, as I understand, un-operated acreage?

A. Beg pardon.

Q. That acreage that you abandoned in 1930, was that all unoperated acreage?

A. No, it was both.

Q. Have you the divisions?

A. I may have. Operated, 16,725.

Q. Unoperated?

A. The unoperated would be the difference. I haven't got that.

[fol. 1475] A. B. Darby, Jr. further testified:

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[fol. 1476] Q. I notice on page 19 of Exhibit No. 44, Company Exhibit No. 44, that you make a classification of the gas leasehold acreage into Class 1, 2, 3, and 4; how did you happen to adopt that classification?

A. That classification was indicated in the maps of the Ohio Fuel Gas Company that I went over.

Q. They submitted to you, among other information, a set of maps?

A. They did.

Q. Showing the acreage?

A. Yes, sir.

Q. And were those maps colored?

A. They were in colors, yes, sir.

Q. And do you recall the colors?

A. I think so.

Q. Red.

A. Red, blue.

Q. The red being No. 1 and the blue being No. 2?

A. Yes, sir.

Q. And the brown being No. 3?

A. The brown being No. 3 and the yellow being No. 4.

Q. Do you know who made that classification?

A. I do not except it was made—I was informed that it was made on the line of No. 1 being developed, No. 2 being immediately adjoining No. 1, and No. 3 in the same trend, not a great distance from No. 2, and the yellow was general acreage geologically taken up, prospective acreage.

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[fol. 1477] That is the general idea I got from the people that compiled the records.

Q. How do you define these several classes—Class No. 1 for instance?

A. Well, my understanding is—and from the maps—No. 1 had been—had production on it; wells had been drilled on it, production acreage; and No. 2 is immediately adjoining but not yet drilled; No. 3 is in the near vicinity or trend of the two first classes; No. 4 not drilled but prospective gas territory from geological standpoints and those who leased the land in the vicinity or field with relation to the other territory, or the first three classes.

Q. No. 4 is pretty generally classed as wildcat, is it not, in the trade?

A. Well, I do not use the name "wildcat" very much myself, but I do use the word "prospective", and when it is leased there is some fellow in the organization, whether it is a field man or the management, that from experience over a number of years they believe that is in the general trend and could be classed as prospective for finding gas or oil under it.

Q. That is No. 4?

A. That is No. 4. Some men call it wildcat acreage and it may be termed that until it is drilled, but we take it up as prospective.

Q. Oftentimes they are mistaken about that prospective idea too, aren't they?

A. I believe it has won out in nine cases out of ten it finally developed.

Q. In No. 4?

A. Yes, sir. I don't say that all of No. 4 might be good; they take up acreage generally and some of it might not produce but there is not any mistakes made in taking up

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[fol. 1478] land that way in the general area of gas and oil production.

Q. If that is true, how does it come that the Ohio Fuel surrenders so many acres every year?

A. Well, that could be done by the drilling of a test well that was dry, or unproductive, and these leases are a big charge to carry; they are gas reserves that have to be carried; a fellow in the gas business should have them.

Q. By the way, who carries them?

A. They are carried out of the income of the company.

Q. Out of the operating expenses?

A. Well, I don't know that——

Q. You understand that the carrying charges of the acreage that you are now speaking about is taken out of the operating expenses of the company?

A. I could not say how the bookkeeping of that is done in these companies; some do it and some do not; it is carried as a construction account sometime or a capital charge; I do not know how it is.

Q. Are you familiar as to how this company carries the delay rental charges?

A. Well, no, I have not audited their books or seen them, I don't know.

Q. Did you take that at all into consideration when you fixed the values in this case?

A. No, I don't think that is a serious matter in holding gas and oil lands; it is serious enough when you pay for it but you have to have it and wherever it is carried it is a necessary thing in operating a gas company, whether they sell gas to the public or anyone else.

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[fol. 1479] Q. From that standpoint did you consider royalties in No. 1 as being carried by the—or being charged up to operating expenses?

A. Well, yes, I imagine royalties would be charged up as an operating charge.

Q. Did you take that into considerate in this case?

A. I don't believe I did.

Mr. Turner: Of course that assumes that the public owns the gas lands.

Mr. Davis: Well, it is quite gratuitous.

Q. Is it your recollection that Class 2 is always contiguous to Class 1?

A. It is.

Q. Do you recall that frequently Class 3 is contiguous to Class 1?

A. In some cases, and in some cases 2 might not immediately adjoin but would be between production, and I would say that is classified all right.

Q. Did you notice that frequently Class 2, 3 and 4 are immediately surrounding Class 1?

A. In some cases, yes, sir.

Q. So that the question of being contiguous don't always apply to the classes, does it?

A. Well, I think it does throughout this stuff here pretty generally; there might have been cases where they went over a No. 2 piece of territory or lease and drilled just beyond it and it gave the piece in between a classification as No. 2, just as well as though it might adjoin where a well had been drilled; that is the way we look at it generally.

Q. Then how do you account for the fact that frequently they have No. 3 immediately adjoining No. 1?

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[fol. 1480] A. Well, I cannot say just how some particular piece might be termed No. 3 that ought to be in No. 2 or possibly in No. 4, but I take it from the get-up of the data that was submitted to me that it was pretty carefully worked out.

Q. How do you know how carefully it was worked out?

A. By its appearance on the maps.

Q. Well, I am asking you now again, how do you account for the fact that No. 3 immediately adjoins and is contiguous to No. 1 so frequently in the maps?

A. Well, I don't know.

Q. As distinguished from No. 2?

A. Well, I don't know as it does frequently and I could not give you any reason why some pieces in No. 3 should be closer than No. 2; I don't know the reason.

Q. Mr. Dally, have you ever used the classification of "proved", "possible" or "probable", "possible" and "unsatisfactory"?

A. No, I have never used "unsatisfactory", I used the other terms, I do not think I used them in a case but I talked that way about the business.

Q. Do you know of that classification being used by any gas men appraising leasehold values?

A. Well, possibly so; those words are possibly synonymous as to what they represent; they would mean the same thing if a fellow was talking one language to you and another; it would mean the same kind of a set-up as to the value of the land.

Q. Do you recall that that is a classification that was one time used by Mr. Ralph Davis, the geologist?

A. No, I don't; I don't know how Davis used his terms.

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[fol. 1481] Q. I see. Is it a fact or not that this classification 1, 2, 3, and 4 was originated by Mr. Davis in appraising leaseholds?

A. I don't know that.

Q. You don't know that?

A. No, sir.

Q. Do you know how this gas company, The Ohio Fuel Gas Company designates its gas leaseholds—gas leasehold acreage?

A. No, I do not.

Q. On its books?

A. Except that it is the same general classification as this.

Q. 1, 2, 3 and 4?

A. I think so; I have not seen it lately but I believe they use that.

Q. You did not know that as a matter of fact that they only make two classifications, operated and unoperated, as far as their books and records are concerned?

A. Well, that is used sometimes in the accounting on the books of the items to designate what has been drilled and what has not been drilled. I do not think that that determines the value of the lands as items in the bookkeeping end of the business.

Q. Did you as an appraiser make any change or changes in the classification as it was submitted to you?

A. Well, figures were not submitted to me that I made; I made those figures myself.

Q. What do you mean by that?

A. I mean the values.

Q. I am not speaking about the values now; I am speaking about the acreage and the classification of the acreage.

A. No, sir, I did not.

Q. You made no changes——.

A. No, sir.

Q. In the acreage or the classifications?

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[fol. 1482] A. No; in my own opinion I took—I believe I made an exception, or took a little exception to two or three parcels of land in northwestern Ohio with which I afterwards acquainted myself that had been drilled.

Q. What were those exceptions as you recall them?

A. Well, I thought they were out of the general trend of this gas producing area here and didn't know there had been wells drilled; they are away up in the northwestern part of the state; it is a very inconsequential amount of acreage.

Q. Was that No. 4 acreage?

A. No, I think it was in the red, as I remember it.

Q. In No. 1 operated?

A. Yes, sir, and some of it was in the No. 4.

Q. You say it was away off by itself?

A. Yes, it was in Ottawa County.

Q. Did you know when you made your appraisement what the practice of the Ohio Fuel Gas Company was with reference to its operated acreage; what constituted its operated acreage?

A. I don't know that but I assume it to be the acreage that is drilled; that would be my opinion.

Q. Well, just what do you mean by that—"the acreage that was drilled"?

A. The acreage that wells had been drilled upon and producing.

Q. How much acreage to a well?

A. I don't know; no particular amount.

Q. Did you at all consider, in fixing your values, the quantity of acreage that would be ascribed to a given well?

A. No, I did not because in the various tracts of land there are small land owners, or owners owning a small

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[fol. 1483] tract; some owning a large tract, and while each had been drilled and had a well drilled on the land, and we will put them both in No. 1 class, but I did not average up what I thought out to be apportioned to each well; I did not do that.

Q. It is in the record here that it was and is the practice of the Ohio Fuel Gas Company to put all the acreage of a

given lease into operated territory when an operating well is drilled on a lease; do you understand that to be the fact?

A. I believe that is a correct statement but I have not been told by any of the officials that that is the way they do it.

Q. And if the operated acreage was so marked upon the map submitted to you you accepted that acreage as operated in your appraisement?

A. Yes, in my opinion and the appraisal, if a well was drilled, whatever the size of the well was, I let it remain in that drilled Class No. 1. The assumption of that proposition is that if the farm had a well, a producing well, on one side of it, you may expect to get one on the other side. It is true you could get a dry hole, but the general operating practice is that you may expect to get another well on that farm, but I call it operated when it is drilled, having one well drilled on the land.

Q. Did you notice what was the largest amount of acreage ascribed to a given producing well in connection with the operated acreage?

A. I do not recall any particular tract of land.

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[fol. 1484] Q. Nor any particular size of a tract of land?

A. I do not.

Q. Did you notice that in Aid Township, Lawrence County, that there was one operating well drilled to an acreage of 1243 acres and which was put into operated acreage?

A. I did not notice that particularly, but the company I am connected with are interested in two wells in Lawrence; I cannot recall whether they are near their acreage that you refer to or not; but I could not say whether a tract of 1200 acres or more—I do not recall that particular item.

Q. What would you say as to whether an operated acreage of 1200 and some odd acres, with one well on it, would contain a great deal of reserve gas?

A. My opinion would be that a 1200 acre tract would be a rather large tract for one well to be put in that class unless the well might be pretty well to the center I would call that reserve gas acreage.

Q. Well, how would you know whether you had the center of it or not?

A. By seeing it on the map.

Q. Do you mean the center of the acreage?

A. Pretty well to the center of the acreage.

Q. Not the center of the supply of gas?

A. Well, the center of the acreage, if the well is developed at the center of it, that would be the center of the supply.

Q. I see. Then you would have in that connection to assume quite a few things in connection with the presence of gas there, wouldn't you, on that proposition?

A. Not any more than you do after you get a producing

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[fol. 1485] well on a tract of land; if I drilled on one tract and had a well I would assume that I would get a well on the next tract; so with the same reasoning the rest of the 1200 acres, in my opinion, would be gas territory.

Q. Would you expect to get gas anywhere on that 1200 acres if you drilled a well?

A. Well, I would say almo-t any location I would select in that line of business I would expect to get a well.

Q. Has that been your experience in drilling wells?

A. It has been my experience that we have gotten them on larger tracts than that but we would not tell when a well would come in unproductive; it is possible to get a dry hole; you cannot tell in advance.

Q. But as a matter of fact isn't it quite the common experience to get dry holes on the same tract of ground where you have a producing well?

A. It is entirely possible anyplace.

Q. Yes, of course it is, and that might possibly be so on this 1200 acres?

A. But it does not sometimes mean very much because there have been dry holes and very big wells right across the line where we drilled offset wells.

Q. That indicated the uncertainty of where the gas is to be found?

A. Not exactly; it indicates that it is not all general and it is not either—you have to hold great bunches of territory with the expectancy that that is the case, but you cannot prove it above the ground, until you drill the well; that is the common practice.

Q. Wouldn't that very fact reflect on your assumption that you would get gas throught this 1200 acres if you sunk

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[fol. 1486] a well in the center and got gas?

A. The same thing could happen on the 1200 acres the same as it could any place.

Q. Do you know whether there were any producing wells on Classifications 2, 3 and 4 when you made the appraisement?

A. I don't remember of noticing any. They were not supposed to have been drilled.

Q. Do you know whether there were any dry holes on Classification No. 2?

A. I do not; it is possible there may have been but I did not notice any.

Q. You did not take that into account?

A. No, sir.

Q. Do you know whether there were any abondoned wells on No. 2?

A. No, I do not.

Q. Do you know whether there were any abondoned wells on No. 3?

A. I could not say from anything I noticed on the maps that there were, but in the Ohio field such a thing—and other places, particularly in Ohio, such a thing would be entirely possible, because early wells were drilled to the shallower formations and called a dry hole, where in the same locality or possibly the same hole, if it had been deepened it would have developed gas in the deep formations.

Q. But that fact had not been developed.

A. No, sir, there had been no dry holes developed in the deep sands that I could find, know- as No. 2 or 3.

Q. I was just directing your attention, of course, Mr. Dally, to abondoned wells, and that is what you were speaking about, I assume?

A. I was referring to abond-ed wells; if there were any I think they would be in shallow formations drilled previously to the development of the deep sands.

Q. Did you at that time know of any dry holes on No. 3 acreage?

A. The same answer would apply.

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[fol. 1487] Q. The same answer would apply?

A. Yes, sir.

Q. And have you made any particular study of the geology of Ohio with reference to gas and oil lands; gas especially?

A. I have made considerable study; the State Department's geological data and such other data that would come from well records and the character of the sand in different formations and other things like that.

Q. What factors do you take into consideration in a classification of 2, 3, and 4 gas leasehold acreage?

A. Well, the classification of 2 relates, in my opinion, to what has been drilled on No. 1; No. 3 with regard to its contiguity to No. 2; No. 4 is generally prospective, in my opinion.

Q. I understand, but what factors do you take into consideration in fixing No. 2 rather than fixing it as No. 3; or rather than fixing it as No. 4?

A. Well, the starting point in this classification must be the development of gas on No. 1; that develops the area as having gas under it; the No. 2 in the oil and gas business, in close contiguity or almost adjoining, or adjoining, I will say; I use that word structurally, as the geologists call it; the experts or follows that do business go out and sometimes find where formations are dipping or rising or take it from some remote place, and we say that is a good place to drill; I would take it from the practical side because there has been gas developed near to No. 1. Now after this 2 might have been drilled we get to No. 3, and then I think No. 3 is so located on these maps we have before us that it is very probably gas territory too and that it will have gas under it. There is no particular indication right on top of the ground that you could say

3001

[fol. 1488] you were going to get a producing well.

Q. Well, is one of the factors that you consider there the possible gas content of No. 2 as compared with No. 1 or as compared with No. 3?

A. Well, there would be with regard to No. 1; I would expect on No. 2 to get the same producing formation and approximately a well of similar character as the one on No. 1.

Q. Your idea is that you would expect to get as much gas on No. 2 acreage as you would on No. 1?

A. Yes, sir, or more—or possibly more.

Q. And you would make it No. 2 because you believe there is a larger gas content in No. 2 than there is in No. 3?

feet of sand in an operated territory that you can go a distance of half a mile and find the same thickness of sand in No. 2?

A. Well, that was all laid down by nature in the early development of this part of the county and nature does everything irregularly.

Q. Regularly?

A. Irregularly. Now then those forty States, have

3002

[fol. 1490] proved, for instance, that the Berea sandstone is a definite kind of a key rock or a producing rock that is so general over Ohio that I do not think your would miss it once in 100 wells drilled. Now our next one that is a big producer here is the Clinton. That underlies all these counties we are talking about as far as I know and from drilling results. Now the extent or thickness of that sand is irregular here and there; it is not just uniform there or any place—any producing field.

Q. And it is irregular in production too, isn't it?

A. Different size wells, yes, sir.

Q. You don't always get the same production from the same thickness of sand, do you?

A. No, sir.

Q. You get a rather thin sand that might give you a large production, and a rather thick sand that might give you a small production, will you not?

A. Well, that comes from what we call the thickness of the pay in the sand.

Q. Well, that is a fact, isn't it?

A. Oh, yes, sir, and there are pays of 8 feet and 10 feet and 15 feet.

Q. In other words, if you find 13 feet of sand on the proven—on proved acreage with a large production you cannot say that half a mile away on another acreage, No. 2 that you will have 13 feet with a large production, can you?

A. Not exactly, no, sir.

Q. There is more or less of a speculation about that, isn't there; an uncertainty, put it that way?

A. Oh, yes, there has to be by the nature of the business but the two formations I named to you have been what we call persistent producers over this State, the Berea and the Clinton, and I don't believe you can—in certain

3004

[fol. 1491] counties I can name I don't believe you can go into any of those counties any place and not find that formation there and in approximate levels of thickness that it is where it is producing, as well as where it has not been found.

I make that answer to establish the general uniformity of the laying down of that formation in certain counties in the State of Ohio.

Q. But the thickness of the formation is different?

A. It all varies.

Q. It will vary, and the production will vary with the same thickness, will it not?

A. Yes, sir.

Q. So that you cannot rely on that definitely?

A. Well, the sand might be tighter in one locality and more open in another.

Q. Sometimes you find the Clinton sand very hard, don't you?

A. Yes, sir.

Q. You don't always get a well from the Clinton sand, do you?

A. No; you can get a dry hole in the Clinton gas well as any of the other.

Q. What has porosity of the sand got to do with the possibility of getting gas?

A. Well, that is what we call the open pay; where the porosity is larger you get a larger volume; where it is tight you get a less volume.

Q. And oftentimes you strike a Clinton sand that is so tight that it has no gas?

A. Well, that is a very dry hole then.

Q. And that becomes a dry hole?

(No reply.)

Q. And in that case is there a tendency for gas to be in the Clinton sands in pools?

A. Possibly so; no one knows the extent of those pools,

3005

[fol. 1492] of course, but it is in pools; that has to be developed by drilling.

Q. Do you indicate that the two principal sands in Ohio are the Clinton and Berea?

A. The Clinton and Berea, yes, sir.

Q. Which is the shallower?

A. The Berea is first; there are other sands besides those two but those are the two principal producing sands in central Ohio and this part we have under discussion.

Q. But the same variation will apply to any one of those sands, will it not, with reference to thickness and production that I just asked you about with reference to the Clinton sand?

A. Generally, yes, sir.

Q. What are the other Ohio sands that you recall, Mr. Dally?

A. Well, there is the Big Injun that produces in some places; the Salt sand; the Niagara lime; the Newburg; the Oriskany; it is not a big producer over Ohio but it has produced up in the northwestern counties; than the red Clinton and the white Clinton; the Medina has produced a couple of wells; I don't know about its history so much; it is under the Clinton but it has produced a couple of gas wells in this State.

Under the Medina is the Trenton, that has been a large producer in northwestern Ohio at a shallower depth; the formation comes up, under the Trenton the St. Peter has been developed over at Newark; it is called the green sand; that is under the Trenton. There is one other age but I don't think it produces in the State of Ohio. It is a possibility but it has not produced yet. It is called the Potsdam. Those are geological ages that are possible in this territory.

3006

[fol. 1493] Q. What have proven to be the most reliable and best producing sands in Ohio?

A. Up to date, the Berea and the Clinton.

Q. Do you know how much of the leasehold acreage that you appraised is in Clinton sand—has Clinton sand under it?

A. Why, I would expect to—outside of the two northwestern counties that I mentioned, Ottawa and another one over west, I would expect to find Clinton sand under all the acreage in question here in Central and southeastern Ohio.

Q. Where would you find the Berea sand?

A. Berea covers approximately the same area, from the northeastern part of the State down to the Ohio River.

Q. Was the possible quantity of gas a factor in your adoption of Classification 2 and 3?

A. 2 and 3 are not producing in this schedule but I would expect the approximate—or same yield from wells drilled on those other two classes that I would get on No. 1. In some cases where No. 1 has been drilled or producing for some time I would expect better initial results on No. 2 than I would on No. 1.

Q. That is in making your classification?

A. Yes, sir.

Q. Would the question of rock pressure be a factor in connection with your classification?

A. It would.

Q. Is there a difference in the rock pressures also with reference to the different fields?

A. There is a difference.

Q. Is there a difference in rock pressures even in the same field or production?

A. Not in the same formations except approximate; they are all approximate.

Q. The various wells as they come in vary in their rock pressure as they come in, do they not?

3007

[fol. 1494] A. No, sir; they vary at the different formations and perhaps out of the same formations miles away from localities where the over-burden may be greater or a greater depth drilled to; but in a developed field the rock pressures in the same formations are approximately the same; there would not be much of a variation.

Q. What is the general variation in rock pressures of the various wells in the Ohio Fuel Gas Company in Ohio; what do they vary from and to?

Mr. Turner: Are you talking about initial——

By Mr. Davies:

Q. I am talking about initial rock pressure now.

A. Well, the initial rock pressure in the Clinton formation from the early history of the drilling in this State has been from 800 pounds—in some cases a little lower than that, but from about 800 pounds up to 1,600 pounds in the several localities where wells have been drilled.

Q. Then what do you mean by getting the same initial rock pressure in the same formation; are there varying

formations to account for all those varying pressures between 800 and 1,600 pounds?

A. No, sir, that would be—the 1,600 or the higher would be where the depth is greater; that would be in 4,000 or 4,300 or 4,400 feet territory where the high pressures would be, and the 800 would be where the depth is around 2,200 or 2,400 feet, or something like that.

Q. So that in connection with the unoperated territory you have to take into consideration the variations in rock pressure, the variations in the sands, whether they are tight or loose, their depth and their thickness, and the variations in production in connection with the various thicknesses of sands and the various possible sands, haven't

3008

[fol. 1495] you—at least that much to take into consideration?

A. There are varying conditions that are always considered in figuring up fields of these different gas sands.

Q. Would you add any considerations besides those that I mentioned?

A. I don't know of any others.

[fol. 1496] Q. What study, Mr. Dally, did you make of the leases themselves?

A. There were lease forms submitted in the data; I went over those different forms generally as to the terms and conditions and form.

Q. You refer to those typed forms?

A. Yes, some were; there were some printed forms, too.

Q. Do you recall how many different types were submitted to you?

A. I don't remember that now.

Q. Do you remember generally the various conditions contained in those types of leases submitted to you?

A. The general conditions were pretty much the same except they might differ in the royalty term, that is the payment of well rentals; in some cases the rentals were different; not many other fundamental changes; the oil royalty was about the same.

Q. Do you mean the gas royalties?

A. The gas royalties differed in some leases.

Q. Well, did the gas royalties differ?

A. Yes, sir.

Q. Do you remember what the variations were in a general way?

A. No, I don't recall.

Q. What was the smallest royalty?

A. I believe $200.00 per well per year; I won't say that just definitely but I think so.

Q. Would you say that was the general royalty provided?

A. No, I think that was the minimum royalty.

Q. Do you recall that a number of them were $100.00

3009

[fol. 1497] per well per annum?

A. Possibly there were some, yes, sir.

Q. And what do you recall was the maximum royalty, since you have spoken of it in that way?

A. I do not recall those particular details.

Q. Would the question of the royalty have an effect upon the value of the lease?

A. No, sir, in my opinion it would not.

Q. Do you recall that some of the leases of the type form submitted to you called for 1/8 of the production rather than a flat rate per year?

A. I don't remember of seeing many of that kind.

Q. Do you remember seeing any of that kind?

A. I don't remember of seeing any royalty—proportion royalty leases like 1/8; I don't remember.

Q. If there was such a provision as that in a type of lease, would that make any difference in the value of the lease?

A. Well, it might make a difference in the value if they were being offered by a holder of a lease to a company or to an operator, because it might imply—it might impose a greater burden on him to take care of the royalty required by greater measurement; generally it is more burdensome than the other kind of rental.

Q. You don't know then how many acres of this leasehold acreage is represented by that type of a lease?

A. I do not.

Q. Do you know how many acres of this leasehold acreage is represented by the types of leases that call for a royalty of $200.00 per well per year?

A. No, I don't know just what the amounts of the different acreage under different royalties is; I haven't that

3010

[fol. 1498] in my memory.

Q. As applied to the various types of leases?

A. No, sir.

Q. Do you recall the type of lease submitted that called for a royalty of this sort, ten cents per thousand cubic feet of gas produced until the well is paid for, and thereafter 15 cents per thousand cubic feet of gas produced from the well; do you recall a lease of that type?

A. I do not, but that I think would not be a lease from a land owner; there has possibly been leases of that kind from independent operators who asked the gas company to drill the lease and finance it for them and take the pay out at a rate of that kind and then after it was paid out it would go to a 15 cent rate; I have seen some of those.

Q. What would you say if there is a type of lease in this list submitted to you of that character?

A. Well, I would not have any particular opinion of it; it might look very good to the company buying it who would undertake that burden; they surely would not do it unless they thought it was likely to produce gas.

Q. Would it have an effect upon the value of the lease if you were having that lease before you for appraisement?

A. Not especially.

Q. It would not make any difference if you were selling that one individual lease whether it had that sort of a provision in it or whether it had a provision of $200.00 per annum?

A. No, sir, because that don't refer to royalties generally; that would not be a royalty.

Q. Which would be the most profitable lease of the two, 3011
[fol. 1499] one that had a $200.00 per year per well flat royalty or one that had a provision of this kind where the lessee would have to pay 15 cents for every thousand feet of gas that came out of the well?

Mr. Turner: Would you pardon me; would be kind enough to call out attention to the form of lease in any of our exhibits that you are talking about?

Mr. Davies: I will try to.

Mr. Turner: If you please.

Mr. Davies: Lease No. 90, dated 1926, for ten year period, 107 acres.

Mr. Turner: Any others?

Mr. Davies: That is the only one I have in mind that I am referring to.

Mr. Turner: Have you the county?

Mr. Huffman: Guernsey County.

Mr. Turner: Have you got it there?

Mr. Huffman: I have it right here.

(Former question read.)

The Witness: The $200.00 per year would be the most profitable of the two.

Q. And the most valuable?

A. I consider the other a more burdensome lease.

Q. You don't know how many acres of the leasehold acreage of this company is represented by that type of lease, do you?

A. No, I don't, but I don't recall of seeing very much of that type of lease.

Q. As a matter of fact, you did not recall seeing this one, did you.

A. No; I recall seeing the purchase contracts though 3012 [fol. 1500] where the well was drilled for an operator owning the lease and turning it over to be drilled by the gas company.

Q. Do you know how many acres of the leasehold acreage of this company is represented by leases calling for $300.00 per well per year?

A. No, I don't know the proportion.

Q. Or how much at $200.00 per well per year?

A. Neither one; I went over all those matters at the time and that has been some little time ago but I took them all into consideration, and I don't recall how many there were of each kind.

Q. Do you recall that the general provision in these leases is $200.00 per year per well?

A. I think $200.00 and $300.00.

Q Well, answer my question, if you got it, Mr. Dally. Just read the question.

(Question read.)

A. I know there was a provision for $200.00 per year in a number of them but I don't know how many were of that kind.

Q. You are not willing to say that that was the general prevailing price?

A. No, sir, I wouldn't want to say that; I don't recall.

Q. And that the $300.00 was rather the exception?

A. No, I wouldn't say that.

Q. Are you prepared to say about what per cent of these leases called for $100.00 per well per annum?

A. No, I don't know how many were in that class.

Q. And if there is that difference what difference does that make in the value of the leases in your estimation

3013

[fol. 1501] between, say, $100.00, if you had one lease at $100.00 per year and another one at $200.00 and another one at $300.00 per year per well?

A. From the Company's standpoint, I know they would rather have the lower rental or lower royalty but it does not affect the value of the gas prospects under the land.

Q. Why not?

A. Well, because at the time they are leased up it is not known just what that might be; it is taken up for the purpose of future development; the amount—the royalty fixed could not have any bearing on the possible or probable yield of gas from the land; that is not known at that time.

Q. In other words, that does not reflect upon the possible yield of gas in a given territory?

A. No, sir.

Q. And that is a factor also, isn't it?

A. It is a factor in the cost to the company in operating the territory.

Q. And in the value of the lease in the end?

A. Well the lease is not put up as to how much it earns on the company's books that I know of.

Q. I did not ask you that; I did not ask you that.

A. I will put it this way; I will answer it in this way; that if a block of leases were offered by a holder or owner to a gas company they might value or pay a little more for the more liberal terms of $100.00 than they would for the $200.00; but it could not have any bearing on the value of the lands for gas production.

Q. Or for the desirability of somebody buying it?

A. No, sir.

Q. Buying the lease?

A. It would for the fellow that had them—that leased them up.

3014

[fol. 1502] Q. If you were going to buy that particular lease that condition would not make any difference to you?

A. Not if I thought well of the place where the land was located.

Q. You are going to judge by the possible gas content of the land rather than that sort of a term?

A. The prospects of finding gas there would govern my actions.

Q. Did you observe generally that many of the leases, especially of the earlier date, were very simple in form, and with very few conditions in them?

A. Well, some of the forms were more simple than the later ones.

Q. Do you recall just about what the earlier leases did provide for?

A. Well, in my experience we had royalties running from $100.00 to $500.00; in fact, one of the earliest cases I have known they paid more than $500.00.

Q. Did you find any such leases in the Ohio Fuel Gas Company, the $500.00 per well royalty?

A. Well, I don't recall now but that was at the same time a common thing, for $125.00 per quarter to be provided in the lease; then $300.00 became pretty common, and $200.00, and where territory was remote and off in a part of the country where they wanted to get development, there was inducements offered there by giving more liberal terms, of $100.00. I think that has just been the general course of the business.

Q. The earlier leases provided generally pretty simply for a term, for acreage, a royalty, a delayed rental, and the free use of the gas by the lessor; am I right when I characterize your earliest leases that way?

A. Those terms were all in the earlier leases and there was other things, too.

Q. Do you recall other terms that were put into those earlier leases of The Ohio Fuel Gas Company that were sub-

3015

[fol. 1503] mitted to you?

A. No, I do not.

Q. So that would be a general characterization of one class of those leases—the general class of those leases, would it not?

A. Yes, those are more or less fundamental in all leases.

Q. Now what is the general character of the provisions in leases of more recent years, coming down to date?

A. Well, it is according to where the land is being leased and the development or activity in that locality, and how the operator views the territory; it all depends on that.

Q. Now, of course, Mr. Dally, you must understand that I am directing your attention now entirely to the types of leases that were submitted to you in this case; I am not going out of that field.

A. Yes, sir.

Q. Do you recall then some of the provisions that are now added into the leases that would make the leases what I designate as long form?

A. Say that again, please?

(Question read.)

Q. (Continuing:) As compared with the earlier leases I have just described of a short term?

A. Well, one of the provisions might be the giving of a royalty, 1/8 or some proportion of the gas, which might take more writing or conditions put in the leases to take care of and it is going to be accounted for by meter measurement; I don't know of anything else particularly.

Q. Does it mean anything to put in a lease that the lessee shall have the option of drilling offset wells?

A. The lessee?

Q. Yes.

A. It is very unusual if those terms are in a lease.

3016

[fol. 1504] Q. You say it is unusual to have terms in a lease that gives an option to the lessee of drilling offset wells?

A. Oh, the lessee, the owner of the lease you mean?

Q. The lessee?

A. The lessee is the operator?

Q. Yes.

A. What provision now do you refer to?

Commissioner Geiger: Don't you think we are getting a lot into the record that is not important? You are making

a pretty long record to describe a lease; shouldn't you submit a form?

Mr. Turner: They are all right here in the room.

The Witness: Some of the lease forms require the lessee to drill offset wells; is that what you are getting at?

By Mr. Davies:

Q. How is that?

A. Some of the lease forms or a lease agreed upon requires the lessee to drill offset wells and——

Q. And other leases leave it optional with the lessee whether he shall drill offset wells?

A. I have never seen any that said it is optional with him but I have seen many that did not have any reference to it; but there is an implied operating practice that the lessees in all these leases drill offset wells; they do that as a matter of equity; that is a common practice.

Q. Then you did not notice that a number of the types of leases submitted to you had that provision in them?

A. That the lessee—do you mean that the lessee——

Q. Could, at his option, drill offset wells?

A. I don't remember of seeing that.

Q. Would that make any difference in the value of a lease?

A. Well, I wouldn't say so—I would not let that—in my

3017

[fol. 1505] opinion I would not let that govern the number of wells I would drill and especially offsetting some other fellow's well; I would drill anyhow, whether I had that in there or not.

Q. Well, what would you say——

A. If it would justify me from a production that I was offsetting.

Q. Well, what would be the effect in the market generally in connection with that; you are speaking of what you would do or how it would affect you; how would it affect some other buyer?

A. I don't know how it would affect some other buyer but I do not believe you could go into a reliable company's office and tell them that they did not have to offset when wells were being drilled around them; it would not be a valuable thing to me or to them, I don't believe—sacrificing some of your production.

Commissioner Geiger: May I ask just one thing? None of these gas leases are similar to oil leases in which the lessee or lessor has the right to a certain portion of the product that is taken out; they are all based on rental, are they?

The Witness: I think the majority of them are, Your Honor, or pretty much that way; you get a fixed rental per year and the gas for household use.

Commissioner Geiger: In that they differ fundamentally from oil leases?

The Witness: Oh, yes, the oil is always a proportion——

By Mr. Davies:

Q. Did you notice that some of the types of leases submitted to you provided that the amount of acreage that 3018
[fol. 1506] would be attributed to a well; a drilled well, would be limited?

A. Yes, sir.

Q. Would a lease of that kind be affected in value by that provision?

A. Well——

Q. As compared with one that had no limit?

A. Possibly to some extent it would; if you did not have to drill too many wells it would be of more value than ones where you had to drill a given number.

Q. And as you said before, you don't know how many acres or leasehold acreage of this company is represented by that sort of a lease?

A. I don't know the exact number, no, sir.

Q. Did you notice the variation in the length of these types of leases that were submitted to you as to the term?

A. Yes.

Q. Varying from what to what?

A. Well, some as low as two years, and up to ten—five and ten.

Q. 15?

A. I think there were some longer ones.

Q. 20?

A. Yes.

Commissioner Geiger: Weren't there a good many of them during the life of the field?

The Witness: Well, it all becomes the life of the field after they get production, Your Honor, then they are indefinite.

By Mr. Davies:

Q. They are indefinite after they get production usually?

A. Yes, sir.

Q. But until that time they are governed by a term?

A. A term within which you must drill; you must drill your wells to hold the lease, or get it extended.

Q. Does that factor cut any figure in the value of a lease?

3019

[fol. 1507] A. No.

Q. Whether it is two years or 20 years?

A. Yes, I would rather have a 20 year lease than I would a two, unless active development were under way, and then it would not make much difference.

Q. Did you notice whether any of these types of leases submitted to you carry a renewal clause?

A. Well, not many of them.

Q. Do you recall that any of them did?

A. No, I don't think so.

Q. And if they did would there be a difference in the value between a lease that provided for a renewal and one that did not?

A. Well, that would depend on developments toward the end of the term of that lease; if there had been drilling done in the vicinity and it had been proven valuable, or more valuable than when it was taken up, then it would have to be renewed and it would not be as valuable as one that was not in that situation. The value of the lease—the value of the property or the gas under it would not be affected, but it would be a difficult thing perhaps to extend a lot of leases so that you could control them in the course of your lease.

Q. So it would be desirable to have a long term lease rather than a short one from that standpoint?

A. It would, yes, sir.

Q. Does it make any difference in the value of a lease that a lease provides for warranty of title and for the right to pay off liens and be subrogated to liens as compared with the short form lease that I have called your attention to at the beginning?

3020

[fol. 1508] A. I would not put much value on that.

Q. That would not add much one way or the other?

A. I would say no.

Q. What effect would it have on the value of a lease if it had a provision in it that three wells must be drilled three months apart on the lease—at least within three months apart, on a given lease?

A. It would not affect the value of the lease, in my opinion, if you drilled the first well and got gas.

Q. Would it affect it in the market——

A. No.

Q. For leases?

[fol. 1509] A. It would not.

3021

* * * * * * *

Cross-examined by Mr. Davies:

Q. Mr. Dalley, when did you take up the task of appraising these leaseholds, if you recall?

A. The entire leaseholds involved here, I think in the early part of 1930.

Q. And you valued them as of June 30, 1929?

A. Yes, sir.

Q. And how long did it take you to complete your study?

A. I don't remember. I had the maps and all these records a number of weeks at my office. I had other duties, you know, to attend to, and I reviewed these things along with these duties, after hours; sometimes a good deal of it in the evenings.

Q. Just what information was submitted to you for the purpose of making this appraisment?

A. I just can't give you that; but the records of this character here, whatever they involve; lease forms and well records, production records and maps, various things of that kind.

By Mr. Turner:

Q. It is that information lying there on the table, isn't it?

A. That is the same books that I looked over, or like them.

By Mr. Davies:

Q. You were given the maps that you referred to this 3022
[fol. 1510] morning that carried the designation and classification of 1, 2, 3, and 4 for the gas lands?

A. Yes, sir.

Q. Colored as you indicated this morning?

A. Yes.

Q. And were you furnished with the information that is contained on this exhibit that I now hand to you, which, for the purposes of identification is marked City's Exhibit No. 62, which is headed, "The Ohio Fuel Gas Company" "Summary of gas wells, recapitulation. Initial open flow capacity; calculated production, 1928; corrected production 1928; calculated daily production 1929; annual capacity if used average time of 238 days," by counties.

A. Yes, sir.

Q. Do you recognize that as information that was submitted to you?

A. Yes, I remember seeing this.

Q. And what is the fact as to whether you were also furnished with detailed information concerning the same subject matter?

A. I had detail information——

Q. Giving the well history?

A. The well history, yes; corrected pressure, and so on.

Thereupon the exhibit above identified was marked for purposes of identification as City's Exhibit No. 63.

Q. Were you also furnished with the information contained in what, for purposes of identification has been marked as City's Exhibit No. 63, headed "The Ohio Fuel Gas Company, Summary of gas lands as of June 30th, 1929, summarized by counties. Class 1 acreage, class 2 acreage 3023
[fol. 1511] class 3 acreage, class 4 acreage; unoperated acreage; total operated and unoperated acreage".

A. These records are the same as the books there. Then I have gone over them and seen this.

Q. Well, if you will take my word for it, that is a photostatic copy of page 14 of one of the books.

A. Yes. Well, I have gone over all that data.

Q. That information was furnished you?

A. Yes, sir.

Q. And the detailed information by well or by township was furnished to you in connection with that, was it not?

A. Yes, sir.

And thereupon the exhibit was marked for purposes of identification as City's Exhibit No. 64.

Q. And in that connection were you also given the information contained on City's Exhibit No. 64 head "The Ohio Fuel Gas Company; summary of gas wells as of June 30, 1929. Recapitulation. Total number of wells; average sand thickness; average depth of well, feet; average initial open flow, cubic feet per well; average initial rock pressure, pounds; average rock pressure year 1928 pounds; average line pressure at well, year 1928, pounds; average first minute rise above line pressure, year 1928, pounds; tubing volume, average per well cubic feet; volume factor average per well; average number of days well used 1928; average calculated production year 1928 m. cu. feet; average calculated daily production per well, year 1928, m. cu. feet; average annual capacity per well if used average time of 238 days;" was that information furnished you?

A. It was.

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[fol. 1512] Q. And were you furnished with the detailed information with reference to the individual wells that make up that summary?

A. I was.

Q. Do you recall any other information furnished to you besides these summaries, together with the details in connection therewith and the maps?

A. I do not. There was in the batch of stuff a good many books brought to me at the time, and that is the data I examined. I went over it very carefully; a great many books in the exhibits.

Q. Do you consider that the information that was furnished to you was complete for the purpose?

A. I do.

Q. If you were a prospective buyer, would you expect any further or more information than was submitted to you?

A. No, sir, I think that would be complete for that purpose?

Q. Referring to the United Fuel Gas case, in which you said you were an appraiser; was the information furnished to you here comparable to that furnished to you in that case?

A. It was.

Q. And to the same extent?

A. I think to the same extent, yes, sir.

Q. Mr. Dailey, what were the controlling factors considered by you in arriving at the value of this leasehold average?

A. Starting with the acreage which had been drilled, I considered the wells and their production, the rock pressures, the amount of gas that they had produced or were producing, against the conditions name- in the record here; their location on the territory. That was the general conditions.

Q. And what would the consideration of those factors

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[fol. 1513] indicate to you so far as gas was concerned in the acreage at the time you were placing the value?

A. Well, they indicated that this was a large producing area from which they were taking their gas, and gave me an idea of its value from the initial performance of the wells as well as the rock pressures that were recorded after it had been producing this length of time, and the newest wells and so on over the entire holdings.

Q. In the operated acreage, from that information you could get a pretty good idea of the gas contained in the operated acreage?

A. Yes, sir.

Q. And you did get it from that information, didn't you?

A. Yes, sir.

Q. And that was one of the factors that influenced you in fixing you- value?

A. That was one of the factors.

Q. What other controlling factor did you take into consideration from that standpoint in making your valuation?

A. Well, a very strong factor that is used; I used it and use it, is the expected yield of gas lands.

Q. The expected yield of gas lands?

A. Yes, based on what they have done over a period of years.

Q. Based on their performance?

A. On the performance, the amount of gas that is produced; and that sometimes is put into acres, that is the amount of gas produced per acre over an area of your holdings; and from that yield I would make up in mind as to the value of this property or any other property that might be submitted with the same information.

Q. That that property would bring on the market?

A. Yes, sir.

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[fol. 1514] Q. And what would govern them after getting the substantial gas content, what would then govern what you could get for it on the market?

A. Well, of course, the test of that is the rate or price you get from the gas, and that rate or price is minus all the things that it takes to operate a gas company, including the dry holes that I mentioned this morning and the hazards, all has to go in against that, whatever the charges are. Then you arrive at what you can afford to sell that gas per thousand at in the market.

Q. Starting from a given rate which you are supposed to get for it.

A. Well, if you had no rate to start with, it would be the cost of all these things, and the cost of operating deducted from that.

Q. That possible price which you could receive.

A. Yes, sir. Coupled with that——

By Commissioner Geiger:

Q. I don't exactly see how you can arrive at a conclusion when you have the unknown element of the value of the gas. You have the quantity. That is ascertainable by calculation. How do you find the value of it unless you know the value of each unit of quantity?

A. Well, Your Honor, you might go out and drill and well or some well and be compelled to find the market afterward; or just assuming a new development, after you have acquired the leases and drilled the well and charged against all the items that enter into that, and you would seek your market, that customer or market must also be reasonably assured that you can continue to give them that fuel, and that would be a continuance of your supply, and all those factors would along with what the customer might—I will speak of an industrial customer—might say

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[fol. 1515] that he could furnish his fuel, of some other kind of fuel. You give him a product in gas that of course in my opinion is better than other fuel; it is the highest class fuel we have. Now, you get his rate or obtain a rate from him that will permit you to do all these things and to develop the land, search for more gas, and pay you a fair return on the invested property. Now, that cannot be ascertained as to that rate—I am talking about starting off; after you have been doing that for some time it is governed more or less by what has been done, by the experience that has been gone over since you have made this initial move; that may run over several years, and that experience tells you for the future what you can do to maintain that business and supply that customer for those customers.

Q. Well, the net result if it was, as I understand your line of calculation, is that you ascertained the quantity of gas and then you ascertain by another line of reasoning and calculation what that gas was worth, and then your total value of your gas lands relates to those two, quantity in reference to the price?

A. Yes, sir.

Q. Now, what price did you take, 48 cents?

A. No. The quantity there in the way I explained the first move, could not have been ascertained as a year until after the experience had gone along to find out how much the land would produce; you wouldn't know that in advance, except by having a lot of similar things around you, maybe in this state and in an adjoining state or in other parts of this state from where the first move would be, to base the experience on. Then you would liken that to the yield out of these other fields, which you would expect

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[fol. 1516] to get out of that property. When you say expected yield, that would mean to exhaustion, or taking all the gas out, all that is commercially possible to take out, or practically possible. That gets to the point of expected yield. That is done in the oil business, too, and they estimate that pretty closely, and they ascertain pretty closely where the gas is all metered.

By Mr. Davies:

Q. You get pretty largely at the estimated quantity of gas in proven territory by the application of the so-called Boyle law?

A. Well, yes. That is in connection with the rock pressure the amount in the tank.

Q. Yes.

A. Well, no, I don't know the magnitude of the tank. You can't tell what the area might be.

Q. You used that in part?

A. Yes, sir.

Q. And what market price did you have in mind, what rate price did you have in mind when you were fixing the value in this case?

A. I didn't find the rate price in connection with this.

Q. What did you figure with reference to it, from the standpoint of what you could get for the gas product in the market?

A. Well, the amount of gas would be the first thing that you would expect to be in the property——

Q. That is right.

A. That is to exhaustion. Now, you could use any figure that you might want to as a purchaser of that property; you could take a wholesale price or take any rate which you expected to get. If you bought the property and ex-

3029

[fol. 1517] pected to get the maximum rate always, you might be putting a higher price on the property than you could stand; you would have to arrive at something to be conservative if you want to figure that way.

Q. Well, if the price was 50 cents in the market, that would give you a guide for the value of the leaseholds, wouldn't it?

A. Yes, sir.

Q. And if the price was 30 cents in the market generally, that would give you also a different guide?

A. Different guide.

Q. It would give you a different value for the leasehold——

A. Yes.

Q. Just as we have here under consideration?

A. Yes, sir.

By Commissioner Geiger:

Q. Now, did you pursue a calculation that would enable us to determine what was the right price, based upon the amount that you had invested, all of the risk you have in

connection with it, the cost of your property and so forth; did you work that out?

A. No, I didn't work that out with regard to this rate here, Your Honor; but in Pennsylvania we have reached a rate over there, or charging a rate, that I think is possibly in effect over 80 per cent, of the natural gas supply district—not just the same, but it runs from 60 to 65 cents per thousand.

By Mr. Davies:

Q. In Pennsylvania?

A. Yes. Now, there may be some higher rates, and there are not many that are lower than that. There may be a few small towns.

By Commissioner Geiger:

Q. Did you find what the rate should be in seeking knowl- 3030

[fol. 1518] edge as to what rates were other places; is that the way you arrived at it?

A. With regard to this rate?

Q. Yes.

A. No, sir. No, I didn't take it from that standpoint.

By Mr. Davies:

Q. How much were you influenced by the price of 60 or 65 cents that you just spoke about that was prevailing in Pennsylvania?

A. I wasn't influenced by that. In figuring this value up here, I made the calculation from what I would expect the property to produce in cubic feet yields.

Q. Yes.

A. And I didn't put a price per thousand on my figures to arrive at the calculation.

Q. Wouldn't it be necessary for you to have some idea as to price after you get the quantity?

A. No, not necessarily to fix any particular price.

Q. Well, I am not talking about a particular price.

A. Well, I may have taken a wholesale field price——

Q. Well, did you?

A. Well, no, I didn't do it, except in some cases I would to see what they might bring.

Q. You did that in some cases here in this average?

A. Well, yes.

Q. To see what they would bring?

A. I wanted to see what they would bring, that is all of them. You can take any one rate, 10 cents or 20 or 30 cents on up.

Q. Well now, can you indicate to me what property or what leaseholds you applied that principle to?

A. Oh, no. No one particularly; I didn't apply it to any particular part of this exhibit.

Q. Well, now, Mr. Dalley, how did you work up your 3031 [fol. 1519] valuation of $90.00 per acre on the class 1 operated acreage in this case?

A. On yield.

Q. Well, I understand that your valuation for the No. 1 operated territory is $90.00 per acre?

A. Yes.

Q. Now, what method did you use to arrive at the figure?

A. Well, I calculated that that developed acreage ought to produce about 4,000,000 feet per acre, and I took the next number to it, No. 2, which is a little higher, I believe——

Q. Yes, your No. 2, you valued at $100.00 an acre?

A. Yes, sir.

Q. According to the record.

A. Possibly not drilled, and a little higher rock pressure there; so that is taken out of No. 1.

Q. How much did you figure per acre on that for gas content?

A. I used the same figure.

Q. You used the same figures?

A. Yes.

Q. For gas content?

A. Yes, sir, I used the 4,000,000 on the yield there, of my opinion of yield from experience of what it ought to yield, all of it; and allowance for the No. 1 that had been taken out, which would bring it to 4,000,000.

Q. You consider No. 1 somewhat depleted?

A. Yes, sir.

Q. And you would consider No. 2 equal to No. 1 in the product?

A. Based upon the calculated pressure, that being fairly near the initial, I would say that would be the higher class.

Q. With, if course; nothing taken out?
A. Nothing taken out.
Q. Because there was no operating wells on it?

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[fol. 1520] A. That is it.
Q. Now then, what did you apply to that quantity gas content to arrive at $90.00?
A. Well, I gave you the quantities; I don't remember just how much—if the rock pressure had been decreased 20 per cent, or 15 or 20, I would take that much off of the expected yield of No. 1.
Q. Yes.
A. But I kept the other figure for the initial or high rock pressure virgin for No. 2.
Q. Yes, sir.
A. Which I place at about 4,000,00- feet.
Q. I just want to get your mathematics by which you convert that 4,000,000 feet into $90.00 for No. 1 and $100.00 for No. 2.
A. Well, I was taking a value on the average basis, that the average should yield so much gas; and that it was at least worth so much.
Q. Well, what is that so much?
A. Well, I don't just remember without going into——

Mr. Davies: I see.

By Commissioner Geiger:

Q. Well, if it is 4,000,000 cubic feet is worth $90.00 an acre, it would be about 25 cents a thousand cubic feet, wouldn't it?
A. Well, that would be 22½ cents.
Q. That is what you figured it to be worth?
A. That would be one way; but I didn't use the 22 if you remember, but that would be approximate.

By Mr. Davies:

Q. What did you use?
A. I don't remember.
Q. But you did use some comparable figure to that?

A. Oh, yes, I figured the average should be worth $90.00 an acre; if I was buying it, or if I was selling it to some other fellow:

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[fol. 1521] Q. What market did you have in mind when you fixed either 22 cents or some comparable figure?

A. Oh, just a general market over this state.

Q. A domestic market, public utility market——

A. Not entirely because——

Q. Not entirely?

A. No, no.

Q. But in part so?

A. The average an average sale.

Q. An average sale including public utility and industrial?

A. Well, domestic and industrial.

Q. Domestic and industrial, yes.

Mr. Turner: My figure educated assistants tell me you should multiply that figure by 10. It is 2¼ cents instead of 22.

The Witness: Yes, 22½ cents would extinguish it all——

Commissioner Geiger: 2¼?

The Witness: 2¼.

Mr. Turner: I was gasping myself.

By Commissioner Geiger:

Q. Well, then it is 2¼?

A. Two and a quarter; would be 22½ dollars a million; four million would be $90.00.

By Mr. Davies:

Q. And you figured that price of $90.00 per acre for the 291,396 acres; that was the amount of operated acreage submitted to you?

A. Yes, sir; the buyer could afford to pay that for the property, a willing seller and a willing buyer.

Q. Would pay $90.00 an acre for No. 1 and $100.00 an acre for No. 2?

A. Yes, sir.

Q. Now, what about the fact that gas production in Ohio; are some counties, or some fields higher in production than

3034

[fol. 1522] others?

A. Yes, sir.

Q. Well, did you work that out by townships or counties as to the relative quantity of gas in the various locations?

A. No; that would be an average.

Q. Well, how did you get your average?

A. It would be more or less by experience.

Q. Without computing it here in this case?

A. The experience of myself and others, too; I have talked with men in the business.

Q. In other words, you just considered the average as it was indicated to you on that map, and from your judgment you supposed or believed or found that $90.00 an acre would be that average price for it?

A. That would be a price that a person could afford to pay.

Q. And also did you in that same way come to the conclusion that operated territory generally yields this 4,000,000 cubic feet per acre; did you just judge that on general principles that operated acreage on the average yields that much gas per acre?

A. Over Ohio, I considered that was the average experience.

Q. Over Ohio?

A. Yes, sir.

Q. Well, but what length of time is that production?

A. During the life of the wells.

Q. The average production during the life of the wells would be that many cubic feet?

A. Yes; there ought to be a final yield or an ultimate yield of 4,000,000 feet per acre.

Q. 4,000,000 cubic feet per acre during the life of the wells?

A. Yes, or out of the property.

Q. Yes, that would be the better way?

3035

[fol. 1523] A. To exhaustion, whatever that might be.

Q. To exhaustion?

A. Yes.

Q. Is that a result that you found that you got out of your 60,000 acres that you have in Ohio that is operated?

A. Yes, some part of that would confirm that fairly well.

Q. Have you ever exhausted any of that acreage in Ohio?

A. No.

Q. Has there been any exhaustion of any particular acreage in Ohio by which you could get that figure?

A. Well, possibly there has been exhaustion where these wells have been abandoned, where they ceased to be of sufficient volume to operate, or they are flooded with water or something else that they wouldn't handle them commercially; then that would be the end of that well's ability to produce out of the piece of land. That would be called the ultimate——

Q. Now, you have indicated that one controlling factor was the amount of gas per acre in the ground, and you have indicated also that you took into consideration the price at which gas was selling in the market?

A. As a buyer of the piece of property; first, if I were the buyer, I would conclude or expect to get 4,000,000 feet per acre out of the property I was buying, and that the price per acre that I placed on this, $90.00 or $100.00, I could afford to pay to buy that property.

Q. And what is the guide as to what you could afford to pay for it; what you could sell it for, either as acreage or as gas?

A. Not as acreage, but in selling the gas.

Q. In selling the gas?

A. Yes, I would expect to always sell it for more than I paid for it, and expect to have that yield; and I take my

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[fol. 1524] chance on the gas. That would be the ultimate——

Q. And if you bought the acreage you would expect to sell it for more than you bought it for, wouldn't you; that would be your object in buying it?

A. To sell the gas for more than I bought it for.

Q. Yes.

A. Yes, sir.

Q. Well, suppose you just bought and dealt in the leaseholds alone; wouldn't it be true also that you would expect to sell those leaseholds at a profit if you bought them?

A. Yes, sir.

Q. And that profit would depend upon the price that could be gotten for gas, wouldn't it?

A. Well, that would be with the buyer, but I would say he would want to have that in his calculation.

Q. Yes; that would be his inducement to buy?
A. Yes, sir.

By Commissioner Geiger:

Q. Would we be in any way safe in estimating what the gas should be worth at the gateway of the City of Columbus if we start out with the value of gas in the ground at 2¼ cents a thousand cubic feet, and adding to it the cost of drilling and transporatation and proper income and everything that would be proper to add to it in order to give the company its rightful return; would we be safe in saying that in the ground, undrilled, undeveloped, it is worth 2¼ cents a thousand cubic feet?

A. Your Honor, those are the figure I put on the acreage, but I think it would be worth more than that.

Q. I know; you put it in order to find the value of the

3037

[fol. 1525] acreage——

A. Yes.

Q. In order that we should show a return on the investment in the acreage?

A. Yes sir.

Q. Let us get back of that; we are starting somewhere with a material that we finally move to the gateway of Columbus and that is gas in its natural position in the ground. Now, would we be right in saying that a fair valuation of that gas in the ground is 2¼ cents a thousand cubic feet; then ascertaining what it would take to transport it from its position in the ground to its position at the gateway?

A. I think it would be too low a rate to start the rate on.

Q. You think 2½ cents would be too low?

A. Yes, sir.

Q. What would you think would be right?

A. Well, I would want to figure that over a little, but I valued that acreage there to bring about 2¼ cents as a fair value for a buyer to buy that property at; I think it was worth more than that. I don't believe you could drill it——

Q. What we want is to find out what the gas is worth when it gets to the gateway. Now, can we safely start with an initial considered or agreed price of 2¼ cents in the ground before it has been disturbed by drill or anything else?

A. I don't believe you could.

Commissioner Geiger: You don't believe you could. All right. You haven't any idea of what would be a fair price to start with?

The Witness: No, judge; if all the figures, the yield was always constant——

Q. Never mind about that.

A. Then we could arrive at something very definite on that; but the man that buys the property and buying at

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[fol. 1526] this price, I feel is buying it at a price that he has got a chance to make more money than that at it, and he couldn't afford to go in on a basis of 2¼ cents in my opinion.

Q. Of course, 2¼ cents would be a standard initial cost irrespective of whether your land was rich or poor in gas, and that would reflect upon how much money it would take to get it out; you could take gas out cheaper where the flow is large than where it is limited?

A. And limited to a number of wells, too.

Q. Yes, certainly. All right.

By Mr. Davies:

Q. And you have arrived at that quantity per acre on general principles rather than by a close study of the Ohio Fuel Gas Company acreage, haven't you?

A. No, I haven't; I haven't got their records on that, but I have got the records or had them communicated to me in talking the matter over in our own experience, that we would expect to get an average yield of 4,000,000 cubic feet.

Q. But you didn't analyze the experience of the Ohio Fuel Company on this acreage that was submitted to you for consideration, did you?

A. No. That would, perhaps, have taken a great deal more of this data here to have traced all of the yield back on the entire property. I don't think that is covered by these exhibits here from the time they first came in.

Q. And there is more or less fluctuation in that quantity per acre, isn't there; it would vary per acre in production?

A. That is an average, yes, sir.

Q. What has been your experience about the lowest yield

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[fol. 1527] per acre.

A. Well, I can't answer that question.

Q. What has been your maximum production per acre?

A. I can't answer that, either.

Q. Well, as a matter of fact, Mr. Dalley, isn't the amount of the gas in the ground more or less speculative, a question of judgment?

A. It is speculative up to the point of what I gave you on the way we reached the figures on this yield. The average yield over a good many properties has been $4,000,000 feet.

Q. Where do you get that information, Mr. Dalley?

A. I get it from our wells we have operated.

Q. Have you got figures in your office that indicate that result?

A. Not now.

Q. Have you had such figures?

A. Yes.

Q. In your office?

A. Yes.

Q. And yet you have never had any exhausted acreage, have you?

A. Well, I guess we have had some exhausted acreage, acreage that wouldn't be useful supplying gas out of it. It don't just quit, but if water comes in or other things happen to wells, there are a number of wells abandoned, that might not be called an exhaustion of the producing rock, but it affects the yield out of the wells, and out of that territory.

Q. Well, on that basis, Mr. Dalley, is there a great deal of reserve in operated number 1 that has not been taken up yet?

A. I think so.

Q. Did you ever sell any unoperated acreage in Ohio?

A. Not that I remember.

Q. Did you ever know of unoperated acreage selling for 3040

[fol. 1528] $100.00 an acre in Ohio?

A. I have heard of sales that exceeded that.

Q. You have never made any yourself in recent years, I will say the last three or four years?

A. Possibly not. We haven't sold many properties that were producing.

Q. I beg pardon?

A. I say our interests have not sold many properties that were producing.

By Commissioner Geiger:

Q. Well, did you ever buy any?
A. Yes, we have bought properties.
Q. Bought acreage?
A. Yes, sir.
Q. What have you paid for it?
A. Well, we paid according to its location and the make-up; we have *made* all the way from $2.00 to $50.00, $75.00.
Q. Have you ever paid as much as $90.00.
A. Well, now I don't know that we have.
Q. What proportion of that did you buy at $2.00 an acre?
A. That would be in the No. 4 class, be a part of some acreage lying out, outlying from the operated properties, or just acreage undeveloped, undrilled; undrilled by other parties drilling or by our own drilling.

By Mr. Davies:

Q. Where is the $50.00 acreage?
A. In close to developments.
Q. And when was that?
A. Oh, I don't know; within the past 8 or 10 years.
Q. Eight or 10 years?
A. Yes; 15 years.
Q. Beg pardon?
A. 8, 10 or 15 years.
Q. Might be as much as 15 years ago?
A. Yes, or longer. We have some very fin*d* properties, and we acquired some——
Q. How much acreage was there in that?
A. Well, considerable, I don't know; sometimes a thou-

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[fol. 1529] sand acres or three or four hundred.

Q. Well, now, are you just sort of guessing at that from memory?

A. No. I am guessing from memory as to the exact transactions, but I know we did it. That price is brought about with most any of the operators by somebody developing or bringing in a new well, and if a land owner or anybody else that may have a lease has been holding a piece

of property they get a very nice price for it, because it is right next to the development.

Q. That is not the usual condition in the market, is *it*?

A. Well, I will tell you; they try to have enough of acreage when they do the drilling, but there is a good deal of that done. Oil people hold out, you know, to buy after it is developed. There is a lot of operators in oil and gas, some very substantial ones that I can refer you to, who pay a big price and wish to pay it rather than go in on the other kind.

Q. Rather than to spend the money on——

A. And hold acreage, *year*. That is a matter of experience and practice. That is done in the Oil business very largely.

Q. That is in the oil business?

A. I say that is done very largely in the oil business.

Q. More than in the gas business?

A. Well, in late years they are doing it in the gas business, too.

By Commissioner Geiger:

Q. Well, when that transaction would take place what did you buy, the land, the fee to the land?

A. No, sir, we would buy the leases that had been taken on the land.

3042

[fol. 1530] Q. The right to take out the gas?

A. Yes, that is it; give the land owner his royalty and his free gas and——

Q. The land owner still held the surface of the land?

A. Oh, yes; and some cases where the land owner hadn't leased, they got the money; they held out and made the money.

Mr. Turner: *John* at this point, you called for this 50-A. Probably we better have this marked City Exhibit 50-A. This was called for by the other side; we are not introducing it, the other side called for it.

Mr. Huffman: We called for it.

Thereupon an exhibit was marked for purposes of identification as City's Exhibit No. 50-A.

By Mr. Davies:

Q. Was there a willing seller of the leasehold acreage in question here on June 30th, 1929?

A. I can't say whether there was a willing seller. I believe there would have been a willing buyer.

Q. Do you imagine that the Ohio Fuel Gas Company on June 30th, 1929, was a willing seller of its leasehold acreage?

A. I can't say that they were.

Q. You don't know of any such leasehold acreage comparable in size, extent, production and quality that was offered on the market at June 30th, 1929, do you in Ohio?

A. Well, I don't know of any in Ohio. In other parts of the country there were.

Q. Well, of course, we are speaking about Ohio. What do

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[fol. 1531] you understand by market value?

A. Well, I presume marked value means a willing seller and a willing buyer making a trade between themselves for a piece of land, or whatever it may be.

Q. Can you conceive of a market value without a willing seller?

A. Yes. There can be a fellow that wants to buy it, but he may not get——

Mr. Turner: You ought to have been through these condemnations down on the street. They fixed a price without a willing seller; they just took it away. I claim, if Your Honor please, that the valuation of public utility is the same thing exactly. You are fixing the value of a property there; it is just the same thing.

Commissioner Geiger: Well then, Mr. Turner, why not let us say that we will dispose of the whole case by finding out what the people of Columbus are willing to pay for gas delivered to their meters. What is the use of going back of this? We have the company a willing seller and the people in Columbus will buy and pay so much for gas; that is all there is to it.

Mr. Turner: Why, Your Honor, I have tried a number of these cases and you don't have—you assume a willing buyer and you assume a willing seller, and if there were a willing buyer and a willing seller, what would this prop-

erty be worth? Your assume those two persons, a willing buyer and willing seller.

Commissioner Geiger: Well, I was just trying to follow this by considering that that was the value of the property——

Mr. Turner: Oh, no, I was taking Mr. Davies' question 3044

[fol. 1532] that you had to have an actual seller. I say that is the part that is always assumed; assume a willing seller and a willing buyer.

Mr. Huffman: Then you assume a market if you can assume that.

Mr. Turner: Well, there is always a market.

Mr. Huffman: Oh, no.

Mr. Turner: We will try to prove a market; we will do the best we can.

Mr. Davies: You have a situation where you have an active market and where you have willing buyers and willing sellers operating on the market; then you have another situation where that thing doesn't exist, then in that case you assume and take judgments with reference to a thing, but you don't get the facts. There are two elements here.

Commissioner Geiger: I think we understand each other. We have all been through condemnation proceedings. All right, go ahead with something else.

By Mr. Davies:

Q. Do you know, Mr. Dalley, of any sale in Ohio in the immediate past of leasehold acreage in any way comparable with this whole leasehold acreage under consideration now?

A. The company I am with, or one of the companies here, made a purchase—I will have to answer that this way——

Q. You can answer——

A. They made a purchase, but I don't know how it compared to this; but it paid some pretty good prices for gas territory. I don't know how they compared with this.

Q. Well, you can answer this question, perhaps by yes or *bim dbd* make any explanation that you desire to. Do 3045

[fol. 1533] you know of any acreage in Ohio sold within recent years comparable in size with the leasehold acreage under consideration here?

A. Well, I have heard that there was, but I would have to get the facts to get just where it was and when.

Q. You have had no experience with such a situation?

A. No, not at those figures.

Q. In arriving at the value which you have given here on $90.00 per acre for No. 1 and $100.00 per acre for No. 2, what other facts were considered by you? I think we talked about gas content and price. What other facts did you use, if any?

A. The producing formation and its history; I refer to the Clinton sand, would be a big factor. The rock pressures of the Clinton sand would be another factor, and the long producing history the Clinton sand has had in some parts of Ohio is another factor.

Q. That would all be involved in your gas content, would it not?

A. That would be involved in the value of the property. If somebody could say to you that the yield that you estimate will not come out, and that is an estimate entirely, then you could point to the long life of these properties continuing to produce as a factor that might be more definite by comparison than what you expect to get out of it in cubic feet. Men in the gas business use that quite often.

Q. But by that process you would only be taking out what you have already calculated to be the gas content?

A. What you would expect.

Q. What you would expect to be the gas content?

A. Yes, the average.

By Commissioner Geiger:

Q. Are you able to give an opinion that is fairly based 3046 [fol. 1534] on fact as to what area a single well will drain in this particular field; would you drill more than one well to every 40 acres? What would be the proper number of wells, or proper number of acres per well?

A. Your Honor, I don't think there is any rule on that, but men in the gas business that have establis-ed a business and are providing a supply of gas for their consumers or for the public, have discussed that and would like to have 40 or 50 acres per well. There are others that say they would like to have a hundred acres to protect it, but as to the exact amount that would be necessary in order to pro-

tect a well, I don't think that has been ascertained definitely just how much it might drain. It has been found in offset wells that were drilled that perhaps required one well on this land and one over here, but when this well was drilled they didn't get a well, and it was decided by the land owner that that gas hadn't come off of his land or the other fellow's land; but when they have offset they haven't found the gas, so that just where that area would be, that is down underground——

Q. I wasn't considering it in reference to offset wells; but assuming you have a thousand acres of gas producing land and you want to know how many wells you have got to drill to get that gas out in order to ascertain what it will cost you to get it out, what can you say, eliminating the question of offset wells, that a single well, properly drilled, the proper depth, would drain in your gas field?

A. Well, I would say 15 to 20 wells to a thousand acres.

Q. To a thousand acres?

A. Yes, sir.

By Mr. Turner:

Q. You might tell the judge the illustration that you 3047

[fol. 1535] gave me at noon of the men that planted the well in the middle of a big piece, and then because he got a big well, went out and drilled on the sides.

A. Was that the oil well?

Q. I thought you were talking about a gas well.

A. What I mentioned at lunch was a case of an oil well; but the same experience has been had in the gas business, too; a very large well and surrounding wells, you know, not affecting it; very large yield, and in some cases the offset wells or the surrounding wells didn't get it.

Q. I thought you said in Ohio a fellow put a gas well in the middle of a field and struck it big, and went out and drilled some other holes and got dry holes, all the rest of it; I thought you were telling me about that.

A. I don't think I told you.

Q. Well, maybe it was Mr. Webber.

A. That was the story, I think Mr. Brendle told. Now, Mr. Turner, I can tell you that that has happened in one of the oil fields up in Northern Pennsylvania; one of the largest wells drilled in this country, drilled in February;

they had a total of almost a hundred million. It was open for about three weeks and they got it shot in and it made 68,000,000 feet; and they drilled in four wells around that, and in the natural order of things those four should have been substantially or something like it, you know, and they were non-producers. It is just a case of that kind that can happen. The same men drilled that big well in.

By Mr. Huffman:

It just indicates the uncertainty when you start to go down as to whether you get gas or not, doesn't it?

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[fol. 1536] A. Yes, sir. You want to hold fast to that which you have if you have got a piece of gas territory.

By Commissioner Geiger:

Q. Now, in estimating the value of $90.00 per acre, you have assumed that every acre that you have got under lease is going to produce gas. That is not so; you are only guessing at it. It might be a duster all over. Did you take that into consideration, or do you regard it as certain producing acreage?

A. No, not certain; but average producing. The No. 1 acreage should be counted as productive acreage. Now, you might get a dry hole under it even in that No. 1 acreage, but it isn't all proven or conclusive, that you can get a well every place you go.

By Mr. Davies:

Q. There is always a degree of uncertainty?

A. Yes, sir; and if there were 10 wells drilled in a thousand acres, or 20, on that yield figure of mine, there might be five of those 10 that wouldn't produce the four; the other four or five may produce 50 per cent or double that amount, and you average the thing up and that is the way it works out. It is not a uniform thing.

Q. Do you know what the history of the Ohio Fuel Gas Company was for 1929 and 1930 for dry holes?

A. No, sir.

Q. As compared to producing wells?

A. No, I don't.

Q. You said you made a study early in 1930?

A. Yes, of this '29 situation.

Q. Did they submit to you the history of their drillings for 1929?

A. Up to June 30th, 1929.

Q. Mr. Dalley, you, I believe, said this morning that you were an appraiser in the Logan Gas case?

A. I was in that rate hearing, yes, sir.

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[fol. 1537] Q. And is it a fact that you regard the Logan property as about comparable with The Ohio Fuel Gas Company property, leasehold property?

A. I believe it is.

Q. I believe the record shows that you appraised the Logan Gas No. 1 at $90.00, leasehold land?

A. I think so.

Q. And No. 2 at $100.00; so you regard them as comparable?

A. I do.

Q. Well, from that standpoint, what effect would the fact that the operating land of the Ohio Fuel Company had been drown on for a period of five years, four or five years in between, have in that respect, if any?

A. Do you mean in the Logan property——

Q. Yes, you appraised the Logan property in '25 and The Ohio Fuel Gas Company in '29 as of '29; and would there be any difference because of the fact that one field had been used for five years longer than the other?

A. I think there would be a difference.

Q. And how did you work that difference out here?

A. I don't remember.

Q. You don't remember?

A. No.

Q. And you know, did you, that the Logan leasehold acreage was included in The Ohio Fuel Gas Company acreage that you appraised in this case?

A. In this case, yes, sir.

Q. You knew it was all included?

A. Yes, sir.

Q. And you put it in at the same figure?

A. Yes.

[fol. 1538] Q. In fixing your values, were you informed of a contract existing between The Oil Fuel Gas Company and the Preston Oil Company concerning these leaseholds?

A. I don't remember of it being brought to my attention.

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[fol. 1539] Q. You don't recall that that contract was submitted to you or that you had the information from the contract?

A. I never have seen it that I have any recollection of.

Q. The record in this case disclosed, I believe, that there is a contract existing between The Ohio Fuel Gas Company and the Preston Oil Company in connection with which substantially all of the oil rights in this leasehold acreage under consideration is transferred to the Preston Oil Company; that The Ohio Fuel Gas Company pays all the delayed rentals, but if an oil well is drilled, comes in, the oil well is turned over to the Preston Oil Company. What effect would such a contract as that have?

Mr. Turner: Wait a minute, that is not all. Upon it being turned over——

Q. Well, upon it being turned over the Preston Company then pays back to The Ohio Fuel Gas Company the amount of delayed rentals that the Gas Company has paid on that particular acreage.

Mr. Turner: Plus the cost of the well.

Q. Plus the cost of the well. What effect would such a contract as that have on the value of the gas leasehold acreage in the market?

A. I don't know what effect it would have; if it was the return of some money that had been paid for rentals it would be a credit to the extent of that money, but I don't know what that is in magnitude, nor I don't remember the Preston contract; I have no recollection of seeing it.

Q. Well, would or would it not have an effect on the value of the gas leasehold?

A. I don't think there is enough of it to have any serious effect on the value of the gas.

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[fol. 1540] Q. Do you know what the delayed rental is per year, or for the year 1929 on The Ohio Fuel Gas Company leasehold acreage?

A. No, I would have to refresh my memory if it is in this record.

Q. Did you have that in consideration at all when you fixed your values?

A. Yes, I did.

Q. How would it reflect on the value, that is the delayed rentals?

A. Only as an additional operating charge or charge against the production of gas.

Q. You get my point with reference to the Preston Oil Company contract; putting it in a few words, that it practically provides that the Gas Company shall carry the delayed rentals on all the leasehold property, and the Preston Company, when an oil well is drilled in, takes the oil well and reimburses the company only for the oil well and its cost.

Mr. Turner: Shouldn't you also tell him that is reciprocal; that when the Preston drills as oil well and it turns out to be a gas well that the same thing happens; that is that The Ohio Fuel Gas Company gets the gas well and pays the delayed rentals, or pays the expenses?

Commissioner Geiger: Well, don't spend much time on this. It is quite apparent what the question is; does it affect the value in your judgment or not?

Mr. Turner: Are you objecting, Your Honor, to my getting in all the facts?

Commissioner Geiger: I think he knows.

Mr. Turner: He said he didn't.

Commissioner Geiger: Well, you have got it stated; the mutual exchange.

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[fol. 1541] The Witness: I think it would be a favorable arrangement. There are many of them and have been in the past where they were reciprocal in the finding of gas for the Gas Company, and getting back the money if they drilled an oil well, and likewise the oil company getting back its money if they drill a gas well.

By Mr. Davies:

Q. You understand that reciprocity only applies to the finding of a gas well by the oil company and an oil well by the gas company, but the delayed rental is carried by the gas company?

A. Well, if it is a very considerable amount of acreage it would be an item of some magnitude; I don't know the mag-

nitude; but the value of such a contract, I believe, would be much more than the amount of rental paid.

Q. Well, what about a purchaser that would have that to consider, the man then would have to consider the fact that he would carry delayed rentals on $1,600,000 per year, and whenever an oil well was struck, he would have to turn that over to the oil company.

A. Well, that would be a considerable item if it is that big.

Q. Yes, it would. That wasn't considered——

By Commissioner Geiger:

Q. Would it be a benefit or detriment to them?

A. Judge, that would be based on the reasonable prospect for gas in the territory. If it were 50-50 or nearly it, they could afford to pay that rental and have the gas rights in the other fellow's territory.

By Mr. Davies:

Q. What do you mean by 50-50?

A. Why, if say half of that territory was developed in gas or would produce some gas wells, which the Clinton has done in many cases, the value would be about equal.

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[fol. 1542] Q. Well, suppose the oil was a very small portion of it.

A. Then it would be worth more to the gas company; that is the gas company could afford all the more to pay the rental.

Q. The greater the amount of oil there the more burden——

A. No, you put it the other way.

Q. Well——

A. If it was a greater amount of oil or developed as a greater amount then it wouldn't be a benefit, it would be a burden, particularly in a large acreage like that it would depend on how it drilled out or developed out, finding gas or oil on it.

Q. But that was not submitted to you in your consideration?

A. I don't remember of it.

By Commissioner Geiger:

Q. Let me ask you; in estimating the value of this acreage, did you estimate it exclusive of the possible oil content of the acreage; you based your judgment of what it was worth on gas alone?

A. Gas alone.

Q. So that if there was oil produced, on your estimate of that gas acreage, that would lessen the amount invested in the gas acreage to the extent of the oil production?

A. It would.

[fol. 1543] By Mr. Davies:

Q. Did you give any consideration to the cost of the leaseholds of the company?

A. Yes, I gave some.

Q. What affect did that have on your valuation?

A. Well, I can't say to what extent, I figured it in this valuation, but I considered that as a part of the cost of getting them.

Q. Do you recall what the cost was?

A. No.

Q. Were figures submitted to you showing what the cost

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[fol. 1544] was?

A. I believe so.

Q. Have you got those figures?

A. No, I haven't.

Q. What consideration did you give to the fact that the delayed rentals were charged up to operating expenses?

A. I didn't give that serious consideration as to the value of the property. That is probably where it ought to go. It is taking care of the stock in trade, or the stock on the shelf to supply the pipe line; it ought to be charged against the income, in my opinion.

Q. And is your answer the same with reference to the charging of the cost of drilling dry holes being charged to the operating expense?

A. Yes, sir.

Q. I assume from the examination that has preceded, that a market is regarded as essential to a value of leasehold property?

A. I believe it is.

Q. Did you give any consideration to the question of what difficulty there might be in getting from some of these fields to a market?

A. Yes, I did. That is entirely surmountable anywhere in this state if you have the market. There are districts you can take this gas to and sell it for industrial purposes in times when things are different from what they are just now, but under normal conditions the distance from the fields would not be a serious matter.

Q. It wouldn't be?

A. No, it would cost some money to lay the lines, but that wouldn't be a serious matter.

Q. Is it costly to transport the gas after the lines are laid or not?

A. A certain amount of cost goes along with it.

Q. Do you know what it is; have you had any experience

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[fol. 1545] in that?

A. Yes, I have had some experience.

Q. How much per cubic foot?

A. Well, the loss and the cost of transporting it, there is no set figure for that. It is based on the size of the lines and conditions, breakage and so on.

Q. What value would such leasehold acreage have if it couldn't be gotten to a market?

A. Well, if a man owns it, he would have a thing on his hands he couldn't move.

Q. What is that?

A. He would have something on his hands he couldn't get an income from; but that goes without saying.

Q. Aren't there many gas wells in Ohio that men own that they are not able to sell their gas?

A. Well, in these times that is possibly true.

Q. Where they have got gas acreage and they have got gas wells but they can't sell their gas?

A. There may be some gas of that kind scattered over the state in the present depression that are not marketing their gas.

Q. It is not worth very much if they haven't a market for it, is it?

A. Well, not the gas generally as property in the individual hand. He may feel it is worth as much as ever to him, but it isn't worth much if he is not marketing it. He is not getting any income from it.

Q. Sure. Mr. Dalley, do you know whether, or did the company submit to you a so-called book value or write-up value for its leaseholds?

A. I don't recollect whether it did or not.

Q. So you can't say whether that was an element that you took into consideration or not?

A. No, sir.

Mr. Davies: I think that is all for the present.

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[fol. 1546] Redirect examination.

By Mr. Turner:

Q. Mr. Dalley, in Exhibit No. 27, City's Exhibit No. 27, they show as of June 30th, 1929, 347,306 acres of operated acreage. Did you value that much in No. 1 acreage?

A. No, sir, I think the amount was 291,000 acres if I remember the figures.

Q. Now, your unoperated acreage was 164,739 acres; that is correct, isn't it?

A. Yes, sir.

Q. And you valued it at $100.00 an acre?

A. Yes, class 2.

Q. Class 2 yes; and your class 3 was 312,631 acres which you valued at $20.00 an acre?

A. Yes, sir.

Q. And your No. 4 was 2,065,421 acres which you valued at $2.00 an acre; is that correct?

A. Yes, sir.

Q. You are a practical gas man; I want to find from you, if I can, the amount of this acreage that is necessarily used and useful to the Ohio Fuel Gas Company in supplying gas throughout Ohio.

A. Do you refer to the entire acreage?

Q. Yes, sir; what part of it is used and useful?

A. I believe it is all necessary to support the demands for gas throughout this sy-tem.

Q. Are classes Nos. 2, 3 and 4 necessary for the continuance of the life of the business of the Ohio Fuel Gas Company?

Mr. Huffman: Well, we object to that.

Mr. Turner: I am using Judge Hickenlooper's language.

Commissioner Geiger: Well, didn't our Supreme Court sustain the Commission eliminating from consideration the value of 2, 3, and 4 in the Logan Gas Company?

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[fol. 1547] Mr. Turner: I admit that, but I have two other reasons, Your Honor, for asking for this. In the first place, I am not sure that there is in that record, with all due respect to the eminent gentlemen that handled it, the attempted proof of what is used and useful, and in the second place I have this statement of Judge Hickenlooper, and I would not overlook the opportunity here of laying the proper promises for going to the Federal Court:

"We think that it must be conceded that the Company has a right to hold as used and useful in its business classified or undeveloped gas acreage on which to prospect for gas. Much of this may prove unprofitable, but it is necessary for the continuance of the life of the business."

Now, I just want to get that in for the consideration of this Commission and anybody else that may pass upon the matter hereafter, if, when and as.

Commissioner Geiger: All right.

Q. It is all used and useful; is that correct?

A. That is correct.

Q. And all necessary to the life of the business?

A. Very necessary, and good management would dictate——

Mr. Huffman: I can't see where this witness is necesarily qualified to pass upon that.

Mr. Turner: 35 years in the gas business.

Commissioner Geiger: I think so. Do you state that all the acreage known as 1, 2, 3 and 4 is at the present used and useful for supplying of gas to the City of Columbus?

Mr. Turner: Supplying gas throughout Ohio.

Commissioner Geiger: Well, supply gas throughout Ohio?

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[fol. 1548] Mr. Turner: I believe it is, Judge.

By Commissioner Geiger:

Q. You would probably agree that the acreage, which is being used, that is developed with gas is more useful than that in reserve?

A. It is much more useful, but the other is necessary to follow up to support the business that has been established.

By Mr. Turner:

Q. Could a company be financed or successfully managed if it only had class No. 1 acreage?

A. It could not. Bankers will not go into unless you have reserves, which must be in acreage held that is nearby or prospective in character for finding gas. You can't finance these big investments unless you do.

Mr. Huffman: We object to that and ask that the answer be stricken.

Commissioner Geiger: Overruled.

Mr. Huffman: Exception.

Q. Assuming that the company were financed and had only No. 1 acreage, this No. — acreage; could it successfully conduct a public utility business in Ohio?

A. It could not.

Mr. Huffman: We still object.

Commissioner Geiger: Is he qualified as a financier?

Mr. Turner: No. This is an operating proposition, Your Honor.

Mr. Huffman: This is of no probative value.

Commissioner Geiger: Objection overruled; exceptions noted.

Mr. Huffman: If Your Honor please, I would like to explain. It is entirely possible that for all that has been shown in this record that leaseholds No. 1 may contain

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[fol. 1549] sufficient reserve so far as this case is concerned, and that was also, I think considered in the Logan case. It may be that a great deal of this property doesn't have enough wells upon it to be said to be fully drained, and I think that fact has been shown in the record here today, that so far as this witness knows, that much of this property might bear a great many more wells, and that for all we know it may be in the contemplation of this company that the drilled acreage, the acreage which they are now using, may be sufficient to supply existing consumers for a great many years to come, and that the additional drilling on this acreage may supply a great deal of reserve, and we don't believe that this witness is qualified or has

been qualified to come here to tell this Commission that the entire state of Ohio must be loaded in to the reserve acreage of this company in order to give it the proper reserve to serve existing customers.

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[fol. 1550] Commissioner Geiger: As I understand their view of the matter is that unless they have an adequate reserve to exhibit to their bankers they couldn't finance the acreage that was really producing gas; that they must have a background of a reserve in order to finance the enterprise.

Mr. Turner: And we go one step further than that, Your Honor; and this last question is whether or not the company itself has a practical operating problem could successfully operate only No. 1. You see you can't wait until a well runs dry to get new gas.

Mr. Huffman: Well, but there is more than that to be considered. If your Honor please, this company is not depending on this acreage alone. It goes to West Virginia and gets gas which it claims cost 29 cents at the river, and at the same time expects the consumers of Ohio to continue to carry this enormous reserve in Ohio, paying delayed rentals, and have this evaluation in this record for the purpose of a rate base, to fix a further cost.

Commissioner Geiger: Don't figure in the Kentucky property.

Mr. Turner: And if we didn't have them, Columbus would have no gas; I can tell you that.

Commissioner Geiger: He may express an opinion. The Commission will reserve the right to give it great or slight weight as it may consider proper.

Q. What has been the history of the natural gas producing companies that have tried to drill an average acreage of less than forty acres to the well?

A. Very disastrous to them. Wells haven't held up, and they have no other reserve acreage to go to in many cases. The reserve acreage is very necessary to go into the natural

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[fol. 1551] gas business in a public way or in a big way industrially, in my opinion.

Q. Now, I am not presenting to you the fairness of the method of asking; I am presenting to you the fairness of the situation to a gas company when I call your attention to

a question that was asked about the operation of No. 1 leasehold. Is it fair to an operating company supplying gas throughout Ohio to take into consideration only No. 1 acreage?

A. It is not.

Q. Is it necessary to take in classes 2, 3, and 4 or either of them?

Mr. Huffman: Oh, we object to that.

The Witness: It is necessary to have all the classes support a big undertaking in a public utility or otherwise in the natural gas business, in my opinion.

Commissioner Geiger: You don't believe the Supreme Court of Ohio was right when they said we shouldn't permit them?

The Witness: Well, Judge, I don't believe so, because I know we need acreage and production away ahead, and good management dictates we should have it. It is not worth while unless you have it.

Mr. Huffman: We object. We don't believe the present day consumers ought to be burdened with all that.

Commissioner Geiger: Well, Mr. Turner has stated he is laying the record for possibly the United States Court. It seems to us that already our highest judicial body has spoken on 2, 3 and 4 and——

Mr. Turner: Well, I didn't think that the question of showing the courts what was used and useful had been passed upon. I think that is a question in the first instance

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[fol. 1552] for men who are in the business; and I am offering the testimony not without the hope that this Commission will consider it.

Commissioner Geiger: And reverse the Supreme Court?

Mr. Turner: Oh, no, you will not reverse the Supreme Court. When you get to understanding this thing you will see that something has been overlooked; that is all there is to it.

Commissioner Geiger: Not reverse the Supreme Court; just correct the Supreme Court.

Mr. Huffman: All you have to do to make property used and useful is to get out and leave it and put it on the consumer's back.

Commissioner Geiger: Go on and ask the witness the question. We want to release him today.

Mr. Turner: You know they were four hours on direct examination, so I don't know whether I can release him or not——

Commissioner Geiger: I don't know whether he can be here tomorrow or not.

Mr. Turner: He may not wish to.

I just want to give the Commission one little peep at one of these books——

Commissioner Geiger: Inside or outside?

Mr. Turner: Inside, because it is work nicely done. I just want to show you how it is done. Here is a summary which the witness has worked up. Come here, Newman, or Ross or both of you, and just tell the Commission there how this is done, so it will save asking each one of these witnesses. Go ahead.

Commissioner Geiger: Are we getting on other witnesses?

Mr. Turner: Just as a part of what he has testified to. I will wait.

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[fol. 1553] Q. You had all of these records that are over here on this table to make your valuation upon?

A. I did.

Q. Now, you were cross examined very extensively this morning and during the day upon your recollections, and you testified that some of the things were not in your figures, but your valuations were placed upon the information contained in this record, and was it not?

A. It was.

Q. Now, I want to ask you if this is a fair representation of the company's leaseholds in Ohio on that map marked company Exhibit 139. I hand you what has been marked as company Exhibit No. 139, and ask you if that is a fair representation.

A. That shows in color the location of the territory in townships in the various counties.

Commissioner Geiger: How?

The Witness: I say it shows the territory in colors and the classifications 1, 2, 3 and 4 in the townships in the several counties that the total acreage is located in.

Q. In proportion?

A. Proportional in the amount; not the figures in the whole township but it shows the amount occupied in that

township that you can see on the acreage given there, the acreage figures. That is one pretty well filled up solid; here is one two-thirds.

Q. It is an epitome of the leaseholds of the company?

A. Yes.

Mr. Turner: I want to offer in evidence company Exhibit No. 139. Is it admitted, Your Honor.

Commissioner Bricker: It may be admitted.

Mr. Turner: As the witness has testified, that is an epitome of the leaseholds of the company

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[fol. 1554] And thereupon the map above offered was admitted in evidence on behalf of the Columbus Gas & Fuel Company, and is herewith submitted marked company Exhibit 139.

The Witness: Here is the class given below, and it shows each of the townships of the various counties were all the acreage is located.

By Commissioner Geiger:

Q. The amount of acreage in each one of the townships?

A. Yes; you see there is one there. That acreage in red is the No. 1. There is the amount in 2 and 3; here is the amount of the four, and there is the townships that don't have acreage in.

Mr. Turner: Talk louder, Mr. Dalley.

By Mr. Turner:

Q. Mr. Dalley, taking into consideration no regulated prices of any kind for gas, taking into consideration no prices whatever for natural gas I want you to give to this Commission your opinion of the value of these gas lands, based only upon the value of the gas therein as a competitive figure?

A. I think the value of all the lands is fair value between a willing buyer and a willing seller, even though they had no market or price.

Q. Well, what I am trying to get at is whether or not as a competitive fuel simply, these lands are worth the prices that you have put upon them?

A. I believe they are.

By Commissioner Bricker:

Q. Would they be worth any more?

A. They might be worth more, but that would be dependent on the further development of the lands, and possibly the rate would come in there, or the market that you could sell the gas in.

Q. Do you feel that regulation or fixed rates has in any way affected the value of these leasehold interests?

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[fol. 1555] A. Well I can't answer that question — to that fixing the value of them, whether rates are regulated or not, but they have a value outside of the regulations.

Q. Well, has regulations affected that value in any way?

A. Well, you refer to the regulation of the——

Q. The fixing of rates either by municipalities or by this Commission or other Commissions, yes.

A. Well, it has in a measure, yes, sir.

Q. In what way?

A. It puts the property and the whole company's destiny up against the views of the Commission or the regulation of whatever they may be, and limit their possibilities.

Q. And how is that reflected in the value which you placed upon this acreage?

A. Well, my valuations were placed outside of that.

Q. You didn't take into consideration the fixing of the price of gas to the public?

A. No, sir.

Q. In arriving at your valuation?

A. No, sir.

By Commissioner Geiger:

Q. Where you speak of it as a competitive fuel, do you in doing that take into consideration that the use of gas is supplied freely to consumers is much more convenient than the use of coal or oil, and that there is a competitive value in the fact that it is for convenience in its use?

A. That is one of the things. It has many things——

Q. That is a housewife would rather pay a dollar a thousand for gas than to cook on coal?

A. Yes, sir, and its attendant——

Q. A dollar and a half a thousand?

A. Yes.

Q. Lots of them?

A. And many of them are paying more than a dollar and a half for gas worth half of this in the manufactured gas.

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[fol. 1556] supplied cities.

Q. And you think if people are willing to pay a dollar and a half for artificial gas that has half as many British thermal units in it that they ought to be perfectly willing to pay a dollar and a half for good natural gas with a thousand B. t. u.'s?

A. I firmly believe that. They are getting a better article; a better proposition.

By Mr. Turner:

Q. But that is not what you based your valuation on?

A. Not at all.

By Mr. Huffman:

Q. You didn't place any valuation on gas as a competitive fuel, either, did you?

A. Yes, sir.

Q. You did?

A. Yes, sir.

Q. How did you arrive at a value without having the price or any basis upon which to figure?

A. Well, you can ascertain if you are considering from the industrial standpoint what other fuels are bringing in the market.

Q. That wouldn't be of any value to you unless you reduced what other fuels were bringing to the price of gas as a basis and applied that to your quantity, would it?

A. Well, the price of other fuels, of course, there are different ones, may not affect it that way; but you could in against your cost apply that if you compete with other fuel costs, this still has advantages to the buyer that he would pay more money for it.

Q. Perhaps, I am not speaking of the advantages now; the advantage is besides the point. I am asking you about how you arrived at $90.00 per acre for leasehold No. 1, and a hundred dollars for leasehold No. 2 without applying a price basis.

A. I have answered that question by stating the amount

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[fol. 1557] of gas per acre in my opinion, over the drilling of Ohio territory——

Q. Yes, but you had gas when you got done with that, didn't you?

A. And I could use any figure to arrive at a value you know.

Q. Yes, but you had gas when you got through finally specifying about what you could get per acre; how did you reduce a gas quantity to money?

A. Well, I didn't reduce it.

Q. You have it at $90.00 an acre and a hundred dollars an acre and twenty dollars an acre on the third class and $2.00 an acre on the fourth?

A. Well, the natural gas business of Ohio to some extent has established values and the cost of gas lands and the value of them from producing expense and supplying gas over this state.

Q. Yes, and in supplying gas you had to take into consideration what the gas was sold for?

A. Yes, and in buying it you have to do that. I think a man could buy the property at these figures and sell gas at a competitive rate against other fuels; that is my opinion.

Q. Well, in the last analysis you did have to use a price, didn't you, for the gas; you had to use a key price in order to build up the amount which you ascribe here as a valuation on leaseholds No. 1, 2 and 3?

A. No; I used my quantity price, or quantity of yield; and the price arrived at here is what I thought I could afford to pay in buying the property from one who is willing to sell it to me; I could pay that price for that property and go along and make some money on it.

By Commissioner Geiger:

Q. Well, but there is the point that we are making inquiry about; you thought you could pay him a certain price

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[fol. 1558] for his property and make some profit on it, provided, however, that you could sell it to a consumer for a certain amount?

Mr. Turner: No; in competition with other fuel.

Q. Provided you could sell it to a consumer for a certain amount?

A. Oh yes.

Q. You have to take that into consideration?

A. Well, I didn't put a figure on there, but I supposed if I were supplying that gas to industrial establishments which vary in their costs, that I could get an average rate for my gas if I didn't take it to the public or the domestic lines, that would justify me in paying that price for the property.

Q. All right, what was your average rate?

A. Well, I don't know what that was.

Mr. Turner: You ought to wait for me.

The Witness: I didn't fix an average rate——

Commissioner Geiger: I don't know Mr. Turner, how we are going to get around——

Mr. Turner: If you will give me a little bit of a chance I may. I haven't objected to your trading horses, but just treat me with a little bit of consideration.

Mr. Huffman: I beg pardon; I thought you had completed your examination.

Mr. Turner: Oh my gracious; I hadn't started until you jumped in.

Commissioner Geiger: Do you want to stop? We just have five minutes.

Mr. Turner: No, no; I have just started. I can do a lot in five minutes if they let me alone.

By Mr. Turner:

Q. They have been asking questions here that indicated 3069

[fol. 1559] that they didn't think there was any market for natural gas properties. Is there a market for natural gas property such as this?

A. There is.

Q. Could you get an offer for all of this property?

A. Well, give me time enough I think I could.

Q. Well, can you get an offer within 24 hours for it?

A. I believe I could.

Q. Do you know anything about the Brendle sale?

A. I don't know the exact figures.

Q. Where was Brendle's property?

A. Brendle's property was in Stark County and Summit County.

Q. Stark and Summit?
A. Yes.
Q. Do you know when it was sold?
A. About four years ago.
Q. Do you know anything about any other sales here in Ohio?
A. Yes the——
Q. What about the Cash Dollar sale?
A. The Cash Dollar; we bought that property.
Q. Yes, what did you pay for it?

Mr. Huffman: We object. You are examining in chief now, aren't you?
Mr. Turner: Well, I thought I was re-examining.
Mr. Davies: Well, he is your witness. Let him develop the sales; I have no objection to that, but he has no right to talk about price.
Commissioner Geiger: All right; overruled and exception noted.
The Witness: We bought the property and I think the average price would be between 75 and $80.00 an acre.

Q. How many operating gas companies are there in Ohio?
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[fol. 1560] Do you know?
A. Why I don't know; but possibly four or five hundred easily.

By Commission Geiger:

Q. How many sales do you know where the gas rights have been sold for $2.00 an acre?
A. Just not many except the acreage was bought in by men that this prospective acreage which might be called wild-cat; there is a good many of those sales made.
Q. For what price?
A. All the way from a dollar an acre up.
Q. Well, really some of them have sold as low as 25 cents an acre, haven't they?
A. Well, I haven't heard of any that low.

By Mr. Turner:

Q. Your valuation on No. 4 was $2.00 as acre?
A. Yes. I don't believe you can lease it without paying

the land owner any money now for any less than that after you round it all up, expenses and all.

Q. Now, you were asked about the Logan——

Commissioner Geiger: We will adjourn until ten o'clock tomorrow morning. That clock is slow.

* * * * * * *

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[fol. 1561] Examined by Mr. Turner:

Q. Mr. Dally, Mr. Davies inquired from you yesterday respecting the probable exhaustion partially of the Logan No. 1 leaseholds in the interim between the two valuations; that is the one as of December 31st, 1924, and its 1929 valuation; what would you say if the evidence in this case showed that in that period, that is, during the years 1925, 1926, 1927, 1928 and 1929, there had been added to operated acreage of the Logan 35,298 acres, and abandoned 19,237 acres; what would you say as to whether it was being kept up?

Commissioner Geiger: That is net about 16,000 acres.

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[fol. 1562] Mr. Turner: Yes, sir.

The Witness: I would say that the property had been maintained approximately; there would not be a serious difference.

Q. Mr. Dally, Mr. Davies inquired of you yesterday in respect of one instance which he found in the Ohio Fuel Gas Company's records that showed one well on a tract of 1248 acres; what happens in the matter of expense or the matter of paging for royalties, etc., when a well is put down?

A. I don't get the question.

Q. Well, do they continue paying the rental per well?

A. Well, when a well is completed on a tract in the majority of cases it stops the further payment of rental and puts it in the operated class.

Q. I asked you respecting several sales of gas lands; do you know about the Brendel sale?

A. I know of it from hearsay, from men in the business that told about it.

Q. Only that way?
A. Yes, sir.
Q. Well, do you know where the property is located?
A. I know where it is.
Q. Where is it?
A. Stark and Summit Counties, Ohio.
Q. Was that recently sold?
A. Yes, sir.
Q. Now you were asked whether or not there was any data in addition to all these books lying over here on the table submitted to you, and I want to ask whether or not that is as much data as is usually submitted in the purchase and sale of gas lands?
A. I think it exceeded the usual amount: very full and complete.
Q. These are the only books that you have examined, in
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[fol. 1563] respect to these leaseholds of The Ohio Fuel Gas Company?
A. Yes, sir.
Q. Now what connection, if any, have you with the Benedum-Trees Interests?
A. I am connected with the majority of their interests, in an official capacity with some of the companies, and sit in on most of their business of this kind.
Q. Can you tell in a brief way the general responsibility of the Benedum-Trees Oil Company?
A. They are highly responsible as operators, and financially.
Q. Are you familiar with the signature of M. L. Benedum?
A. I am.
Q. I hand you what has been marked as Company Exhibit No. 140, and ask you if the name signed there is in the handwriting of Mr. M. L. Benedum?
A. That is Mr. Benedum's signature.

Mr. Turner: That is all for the present.
Commissioner Geiger: You have testified to acreage No. 1, 2, 3 and 4; are you familiar with those divisions?
The Witness: Yes, sir, Your Honor.
Commissioner Geiger: Could you tell us very briefly who determined whether acreage was acerage No. 1 or acreage

No. 2, and how carefully was that estimate made, or was it just a guess that so many acres were readily classified, and properly so, as No. 1, and so many as No. 2?

The Witness: As I have been informed in thus preparing the data there could be no mistake in selecting No. 1 because that acreage had been drilled—wells drilled on it.

Commissioner Geiger: Well, that is all right, it was drilled, but it is not drilled, of course, on every acre?

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[fol. 1564] The Witness: No, sir.

Commissioner Geiger: What test do you think is sufficient of that acreage to determine that it probably belongs to Class No. 1?

The Witness: Principally by the development of gas on the acreage that they have designated as No. 1.

Commissioner Geiger: I understand that, but——

The Witness: That might be a lease of 50 acres or 100 acres or 300 or 400 acres, or larger.

Commissioner Geiger: Now let me give you an illustration and see if I am correct; suppose they lease an acreage of 1,000 acres and they put down a gas well on that and found that it produced gas; then the entire 1,000 acres would be automatically placed in classification No. 1, without further development; would that be right or not?

The Witness: Well, I could not say, Judge, whether they took as much as 1,000 acres and allotted it to No. 1 without development.

Commissioner Geiger: Well, how many acres are there in acreage No. 1?

The Witness: 291,000.

Commissioner Geiger: 291,000 acres; now how many wells are there on acreage No. 1?

The Witness: I think the total is 3500 and some wells.

Commissioner Geiger: 3500?

The Witness: Yes.

Commissioner Geiger: My recollection is it was less than 1,000.

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[fol. 1565] Mr. Turner: Oh, you are thinking of the Logan.

Commissioner Geiger: Well, it is only a dim recollection.

Mr. Turner: 3600 altogether.

Commissioner Geiger: How much does that make to an acre; how many acres to a well?

The Witness: Well, I have calculated it once but I don't just remember.

Mr. Turner: We have it all calculated out.

The Witness: Well, it is about 75 or 80 acres.

Mr. Turner: I think it is 93 acres.

Commissioner Geiger: Now of course those 3600 wells are not scattered uniformly over that entire tract of 290,000 acres; there are a good many of them bunched rather closely in places, and then more remotely in other places?

The Witness: Well, I would agree that some of them are bunched, but not so many of them closely; they would not be just uniformly over the entire acreage.

Commissioner Geiger: Have you had experience enough in that matter of drilling wells on acreage land to give us an opinion as to whether or not that drilling of 3600 wells on 291,000 acres would be a test by which we might safely say that that acreage was all No. 1 acreage?

The Witness: I believe I am competent from experience in drilling to answer the question affirmatively but I might exceed the figures that have been given by them. I take the view from my standpoint sometimes with regard to drilling a well on a large block that I would put maybe more in that Class 1, because that is the way we find gas

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[fol. 1566] or oil most definitely—or gas, by finding the presence of it in a tract, and that gives license to find more on the same tract.

Commissioner Geiger: Then let me ask you this, how many acres are there in Class No. 2?

The Witness: I can refer——

Mr. Huffman: 164,739.

Commissioner Geiger: Now, as I understand, on Class No. 2 there has been no uniform drilling; have there been test wells or not?

The Witness: There is not supposed to be any drilling on No. 2.

Commissioner Geiger: But you have testified that in your judgment acreage No. 2 is worth $100.00 an acre?

The Witness: Yes, sir.

Commissioner Geiger: And that acreage No. 1 is only worth $90.00 an acre?

The Witness: Yes, sir.

Commissioner Geiger: And that is due to the fact that a certain amount of gas has been taken out of acreage No. 1?

The Witness: Yes, sir.

Commissioner Geiger: Then you must proceed on the assumption, in order to fix the value of acreage No, 2 as $100.00 an acre, that all of acreage No. 2 is just as much tested and proved as acreage No. 1, in spite of the fact that no wells have been dug on it?

The Witness: Yes; if you would use that term "proved" I believe it has been proved by its relation to No. 1 and location and that it would have been better gas content minus the amount taken out of No. 1—or plus the amount

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[fol. 1567] taken out of No. 1, which we call the initial value. I look upon No. 2 acreage as being in that class.

Commissioner Geiger: And you do that from your experience without having seen or actually tested by drilling any wells on it?

The Witness: I have seen it tested after those predictions were made as to it being put in Class 2; I have seen it verified.

Commissioner Geiger: Well, how many wells have been dug on 101,000 acres of Class No. 2?

The Witness: No wells that I know of.

Commissioner Geiger: And as to that judgment as to value and gas content of acreage No. 2, it is just an estimate because it is near acreage No. 1 and it therefore is likely to be—to contain the same amount of gas?

The Witness: Yes, sir, in the same trend and with the same condition prevailing; I have seen that verified in some of our own property in northern Ohio up in Stark and Summit Counties; the acreage——

Commissioner Geiger: Well, I don't believe we will take time on that.

The Witness: Well, I have seen it verified there; we verified it ourselves.

Commissioner Geiger: Now you have testified that acreage No. 1 and acreage No. 2 were probably originally—had probably originally the same gas content; both of them were good gas lands ;acreage No. 1, however, has been

tested by actual drilling; acreage No. 2 you assume has the same amount of gas; is that correct?

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[fol. 1568] The Witness: That is correct.

Commissioner Geiger: How long has acreage No. 1 been drawn from, for what period of time, on the average?

The Witness: I don't know what the average is but some of it has been drawn for a number of years.

Commissioner Geiger: I know that, but——

The Witness. A good deal of it lately—later years; not so far back.

Commissioner Geiger: Well, are you prepared to say that in your judgment 90 per cnet of the original gas content of acreage No. 1 still remains in the ground?

The Witness: Approximately that amount.

Commissioner Geiger: So that it has taken ten years to take out ten per cent, you would estimate the field would not be exhausted at the present rate of draft upon it for 100 years?

The Witness: Well, in valuing the acreage of No. 1 I might consider, in my opinion,—it might be shown that there is more than ten per cent taken out; but it was the acreage supporting the production that I am putting the value on, that I expect to get out of that No. 1 acreage, and I would think the value would be justified on that account, whether it was ten per cent or twenty per cent that had been exhausted.

Commissioner Geiger: Well, I assume then that you now intend to say that irrespective of the fact that it may have been exhausted to *as* a greater extent than ten per cent of its original gas content that it is still only ten per cent less in value than it was when you began to drill?

The Witness: That would be my view.

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[fol. 1569] Commissioner Geiger: Because that it supporting the wells that are there and being a key group of acres, is that right?

The Witness: That is correct.

Commissioner Geiger: Now just one more question and I might quit for awhile. You assume that acreage No. 2 has not been touched as far as drawing gas from under it is concerned by any of the 3600 wells on acreage No. 1; is that correct?

The Witness: That would be correct except that there might be some wells in Class No. 1 very close to acreage No. 2 and the acreage No. 2 would be affected to some extent, but not seriously.

Commissioner Geiger: Well, now, the crucial question with us is, why can you say it is that acreage No. 2, out of which no gas is being drawn in any considerable portion and out of which no gas has heretofore been drawn, is property used and useful in the present gas operation? Is it simply because it forms a reserve for future years and that it also forms a basis upon which money may be borrowed?

The Witness: In my opinion it forms the reserve for a backing for No. 1, being next to it, and is as necessary as No. 1, and I would put the next Class 3 as reserves to support both of them in the operation of a large gas industry—No. 3 and No. 4.

Commissioner Geiger: Well you have No. 1 as the reservoir out of which gas is now being drawn; No. 2 as supporting and sustaining and a reserve for No. 1, and No. 3 is still further supporting both No. 1 and No. 2?

The Witness: Yes, sir.

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[fol. 1570] Commissioner Geiger: And No. 4 is supporting 1, 2 and 3?

The Witness: Prospective, to take care of the thing later.

Commissioner Geiger: And that is the way you come to the conclusion that it is now used and useful in supplying gas to the City of Columbus?

The Witness: That all of it is, yes sir.

Commissioner Geiger: I see; all right. Would this be a correct illustration. Suppose you are engaged in some manufacturing which required air reduction; it requires a certain amount of air that goes through the proper process of extraction of its various elements; would you regard all of the rest of the atmosphere of the world as a reservoir for the air that you are using to make oxygen or hydrogen or whatever you might be making; would that be your idea of it?

The Witness: That is my idea.

Commissioner Geiger: And that you, as the company which used a bit of air, atmosphere, for proper chemical and mechanical reaction to produce some elements, could then lay claim to all the other air surrounding the globe as

supporting your reservoir out of which you are taking the air that you are then using?

Mr. Turner: The Company objects.

Commissioner Geiger: Well, wait a minute——

Mr. Turner: Well, the Company objects and I am going to make a record here, whether you like it or not, if you please, sir.

Commissioner Geiger: All right, go ahead and make it.

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[fol. 1571] Mr. Turner: On the ground that there is no evidence in this record to sustain, or upon which such a cross-examination could be predicated.

Mr. Huffman: We do not believe that is true.

Commissioner Geiger: The objections are overruled and the exception noted. Answer the question.

Mr. Turner: Well, what do the other members say about that?

Chairman Hopple: All right.

Mr. Turner: All right, we have our exception. We are all in good humour again. Go ahead.

The Witness: The illustration as to the air may be to some extent comparative but it could not—the gas wells in Ohio supporting this property could not be likened unto the entire atmosphere surrounding it.

Commissioner Geiger: Well, say the atmosphere over the State of Ohio?

The Witness: It is not in that class; there is not enough—this is a limited area from which this gas supply is taken.

Commissioner Geiger: All right; the difference being in your mind that the gas is in a certain fixed area and territory and the atmosphere could not be likened to that because it flows everywhere?

The Witness: It would not be a good comparison.

Commissioner Geiger: All right.

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[fol. 1572] Recross-examination.

By Mr. Davies:

Q. Mr. Dally, after all, in connection with your consideration of 1, 2 and 3, you never know whether you are going to strike gas where you put down a well until you get gas, do you?

A. No; you think so and back it with your money and experience.

Q. You think so, don't you?

A. Yes, sir.

Q. And you base your estimate on No. 2 on that idea of thinking so?

A. No; expectancy from experience covering over 35 years that that has been worked out; it has worked out that way.

Q. In connection with other properties?

A. Many properties.

Q. Not this property?

A. This property in Ohio and the Ohio Fields and elsewhere.

Q. Did you make that sort of an observation with reference to leaseholds classified as No. 2 in this case?

A. Yes, sir.

Q. When?

A. When I went over those.

Q. How many dry holes did you find in Class No. 2 in that examination?

A. I don't know how many.

Q. Did find any?

A. Not many.

Q. Did you find any?

A. I think so.

Q. Have you had any—have you any idea how many?

A. No, I have not.

Q. Have you any idea how many abandoned wells you found on No. 2 in making that investigation of this leasehold?

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[fol. 1573] A. Not in number, no; my opinion is, in going over that, that there is very little territory included in there that would be abandoned by reason of being exhausted of gas; it still is good; and there may have been shallow wells, as I explained yesterday, wells drilled to the Berea or some intermediate sands, but we haven't much territory included in this that has been proven of no value, in the Clinton sand, which is the deep sand, in this State.

Q. Didn't you say yesterday that often you failed to get gas when you struck the Clinton sand?

A. In all wells, yes; we get some dry holes in the midst of a producing territory.

Q. And you strike dry holes when you are fully expecting to strike gas?

A. Yes, sure, you can get a dry hole where you expecto to get a producer.

Q. So that you have that sort of a situation even in operated territory when you have proven wells, don't you?

A. That is part of the nature of the gas business.

Q. That is right, isn't it?

A. Yes, sir.

Q. Directing your attention to a map which is marked Company Exhibit No. 139, introduced yesterday afternoon, you did not prepare that map, did you?

A. I did not.

Q. Do you know who prepared it?

A. I don't know who individually did so, but it came from the Company.

Q. To what extent did you examine it to see whether it was a true representation of what was in those three volumes of maps by portions of territory?

A. I made an individual study of the acreage in the large book and then I aggregated that acreage and the comparison was made from the approximate figures of the acreage

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[fol. 1574] in colors on this map, I could not say whether the color was little wider in one color than it should have been. but it was approximately right.

Q. You made enough of an examination to say that that is approximately representative of what was in those detailed maps?

A. Yes, sir, a pretty close representation.

Q. You were inquired of by Mr. Turner in reference to the difference in the operated acreage between 347,000 plus and 291,000 plus; you know nothing about that difference except you were submitted a statement showing 291,000 plus and you accepted that?

A. Yes, sir; the 291,000—I think the difference was acreage that had been added from the—as I remember it—from the Logan Company's acreage.

Q. Was it?

A. Well, I am not quite certain about that but the 291,000 is what I considered.

Q. And at that time you knew nothing about another figure of operated acreage of 347,000 plus, did you?

A. I do not recall that I did.

Mr. Turner: May I call your attention that they are talking about No. 1, and No. 1 is not necessarily operated acreage, is it?

Mr. Davies: Well, that is your classification, Mr. Turner.

Mr. Turner: Well, all right.

Mr. Davies: As I understand.

Mr. Turner: Well, all right; I see no objection.

Commissioner Geiger: Is there any question about that, Mr. Turner? The Acreage designated as No. 1 is what you would particularly designate as operated acreage?

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[fol. 1575] Mr. Turner: Yes, but my point is this, and it goes to what Your Honor has been inquiring about a number of times, that they chopped off of that operated acreage in making No. 1 the difference between 291,000 and 336,000.

Mr. Davis: They are the two different figures you submitted.

Mr. Turner: Well, we are talking about the books. The books have the operated acreage; you see when it becomes operated acreage, instead of paying a rental per acre they then pay a rental per well, and that is the reason that it is of advantage to have as much in it as possible, so that now in submitting it to these men to make an appraisal they cut off a lot of it.

Commissioner Geiger: But did they cut it off entirely or did they cut it off of No. 1 and put it in No. 2?

Mr. Turner: It might be in No. 2.

Commissioner Geiger: Well, it is worth $10.00 an acre more in No. 2.

Mr. Turner: Mr. Seyffert tells me there is some in 3 and some clear back in 4.

Mr. Huffman: That shows how arbitrary——

Mr. Turner: Oh, well, we will give you a man to cross-examine about that; you will have a man on in a little bit that had to do with it and you can cross-examine him about it.

Commissioner Geiger: As I understand, Mr. Turner, that taking it out of No. 1 and putting it in No. 2 really enhances your total appraisement?

Mr. Turner: If it were put in No. 2, yes, but Mr. Seyffert, standing here, tells me it was distributed further back.

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[fol. 1576] Commissioner Geiger: All right.

By Mr. Davies:

Q. Now, Mr. Dally, do I understand that the 291,000 operated acres included the Logan acreage No. 1 operated?

A. I believe it included that.

Commissioner Geiger: You might put in the amount of the Logan acreage right there.

Mr. Turner: 75,000 plus was the No. 1—I have the exact figures here some place—75,543, to which was added at the time, at this time, however, a net of 16,000, at the time of this appraisal; the Logan appraisal was 12/31/24.

By Mr. Davies:

Q. You were asked concerning the so-called Cash Dollar Sale; when did that sale take place?

A. The latter part of 1928.

Q. And how much acreage was involved in that?

A. The total acreage involved at the time of purchase was something above 102,000 or 103,000 acres—thereabouts.

Q. How many wells were there on it, on that operated acreage?

A. I believe about 60 or 61 wells.

Q. And who purchased it?

A. The Penn-Ohio Company.

Q. Your company?

A. Yes, sir.

Q. And you bought the wells and equipment and what else in connection with that acreage?

A. That is all.

Q. The wells and equipment; any pipe line?

A. No, sir—I would like to qualify that answer or correct it; there was some small lines I think in Morgan County—two inch lines; they were of no consequence in amount or value.

Q. Was that the first entrance of the Penn-Ohio Com-

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[fol. 1577] pany in Ohio territory?

A. Yes, sir.

Q. And the only purchase of the Penn-Ohio in Ohio territory in substantial amount?

A. The only substantial purchases.

Q. And when you testified yesterday on Cross-examination to the extent of the holdings by the Penn-Ohio Company in Ohio it referred principally to this acreage?

A. It did.

Q. Acquired in the so-called Cash Dollar deal?

A. Yes, sir.

Q. Had you had any connection with other transactions in Ohio of anything like that size, of acreage?

A. Not quite as large as that but almost as large. We had one transaction that I was connected with 27 years ago and there was 200,000 acres involved.

Q. That was 27 years ago?

A. Yes, sir.

Q. Did you yourself ever operate a gas plant?

A. I did.

Q. Furnishing gas?

A. Yes, sir.

Q. To domestic consumers?

A. Both domestic and industrial.

Q. How far back; how long has it been since you were so engaged?

A. In the State of Ohio?

Q. Yes.

A. 1910, but we have produced gas since that and up to the present time and sold at wholesale to the buying company; but selling direct to utilities, about up to 1910.

Q. What do you mean by "selling wholesale"?

A. Selling to the pipe lines in the field.

Q. To utilities?

A. Yes, sir.

Q. Mr. Dally, from what you have said in re-direct-

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[fol. 1578] examination, I would gather that your idea of the price for gas would be a price goverened by its competitive value with other fuels?

A. Yes, sir.

Q. And that is the price that you had generally in mind in making your estimate?

A. I did.

Q. And they would be a price as you think of it as being outside of public utility service?

A. Yes, sir.

Q. And are you committed to the thought that that is the price that ought to govern even in public utility service?

A. Well, that might be answered from my viewpoint that when you get into the public utility service, that is what we term retailing the product and it requires and entails a great deal more expense, service, care, the character of the service and backing for it in the supply you are going to sell; that puts a different value I believe on the property.

Q. But you do believe that the public ought to pay for it in utility service all that they can afford to pay for it, is that expressing your view about it?

A. Well, that is my view about it as to the value of the fuel.

Q. Well, as to the rate that people ought to pay?

A. Yes, I believe that the rate ought to be a fair rate but a rate that would be the ultimate for that kind of service.

Q. That the people, the consumer, could afford to pay?

A. Yes, sir.

Commissioner Geiger: The old formula of "All the traffic will bear", is that the one that appeals to you?

The Witness: No, Your Honor.

Commissioner Geiger: Not quite that?

The Witness: No, Your Honor, there is always a limit

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[fol. 1579] in anything you can sell to the public or other people and it is generally governed pretty well, but I think that is pretty well taken care of and in this line of business there should be a compensative return that will permit the continuance or maintenance of the business and searching for and keeping up the supply of gas, carrying the necessary reserves of gas leases, and all other things that enter into an undertaking as a utility, and then plus—that is, the cost of it, plus a fair return on the investment. It is reckoned as a hazardous business and that return cannot be reckoned with money at six percent; you have to get a bigger return for it. That is my view.

By Mr. Davies:

Q. Do you consider the gas business a hazardous business.

A. The drilling of wells, yes.

Q. The hazard is in the wells?

A. Yes, sir.

Q. And the uncertainty of them?

A. Yes, sir.

Q. Then how do you put No. 2 in on a comparable basis with No. 1 without having wells on it?

A. The same hazard extends to No. 1 and No. 2.

Q. You have the same hazard?

A. Yes, sir, and No. 3 and No. 4 if wells are drilled on that acreage.

Q. Do you entertain the view that there is, in Ohio, an unregulated market for competitive fuels, for gas?

A. I believe there is.

Q. So that, Mr. Dally, the practical limit of your rate is in the competitive market with other fuels, as I understand it?

A. For industrial purposes.

Q. For industrial purposes?

A. Yes, sir.

Q. And if that be true how is that reflected in your leasehold value?

A. My values are arrived at with that in view.

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[fol. 1580] Q. So then you subscribe to the view then, do you Mr. Dally, that notwithstanding the fact that this large acreage is acquired and the fact that the consumer pays the royalties, pays all the delayed rentals, pays for all dry holes, that then the consumer should pay a rate based on a valuation fixed by the price that the utility could get for that acreage in an unregulated market aside from public utility service.

Mr. Turner: Objection; the consumer don't pay for anything, except gas, and the Supreme Court of the United States has said it.

Mr. Davis: Well, of course we won't agree on that.

Mr. Turner: Well, we might not agree but I will take my objection.

Commissioner Geiger: I think your distinction is quite without a difference; the consumer pays for gas but he pays for gas——

Mr. Turner: May I have an exception then if my distinction is without a difference?

Commissioner Geiger: Fixed at a rate that involves all the things that counsel has mentioned——

Mr. Turner: Well, we usually think of selling the commodity——

Mr. Huffman: They are paying for a lot more than gas, in our opinion.

Mr. Turner: Will you admit they are paying for this lawsuit that is dragging out for two years?

Commissioner Geiger: It will be in the rate all right; it will be in there.

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[fol. 1581] Mr. Turner: Like the salesman's pants. I want to get through with this and get to something else; this company will be bankrupt before you get through.

Mr. Davies: We will show you about that after while.

Mr. Turner: Maybe you will buy the company.

Mr. Huffman: Maybe we will sell it.

Mr. Turner: Yes, maybe you will do that.

By Mr. Davies:

Q. How do you answer that question, Mr. Dally?

A. My answer to that question—my viewpoint would be that all you have said would have to be done if a municipality was doing it themselves or any other group of people or capitalists or individuals, they have to go all through that and spend that money and that has to be done by somebody, and the gas company in doing it, they get it into the form of selling 1000 feet of gas at a price that will take care of all that, because it has to be paid. You could not have gas fuel here if somebody did not do it. This company is doing it, and I think it is justified.

Q. So, as I understand your answer is that you answer "Yes" to that question?

A. Yes, sir.

Q. And you subscribe to that view?

(No reply.)

Mr. Davies: That is all.

Mr. Turner: That is all; who do you want next?

Mr. Davies: Who have you got?

Mr. Turner: We have got these gentlemen from out of town; we have two men here from out of town; Mr. Wittmer.

Mr. Davies: All right.

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[fol. 1582] GEORGE WITMER, JR., further testified on cross-examination:

Q. On page 19 of Company Exhibit No. 44 I find your appraisement of the leasehold acreage of The Ohio Fuel Gas Company submitted and I notice that you divide it into Classes 1, 2, 3, and 4; how did you come to adopt that classification or where did you get it?

A. That classification was part of the data and information furnished by the Company.

Q. And the quantities in the classification, in the several classifications, were furnished by the company as part of the data?

A. Yes, sir.

Q. How do you define these several classes 1, 2, 3, and 4?

A. No. 1 is always listed as the operated acreage or leases.

No. 2 is the territory that is practically proven.

No. 3 is semi-proven.

No. 4 is wildcat.

Q. And you understand that those in a general way were the definitions used in making the classification of the leasehold acreage of this company?

A. Yes, sir.

Q. You made no changes in the amount of acreage in each classification that was submitted to you, did you?

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[fol. 1583] A. I did not.

Q. And of course you did not know who did make this classification, as a matter of fact?

A. I do not.

Q. You are familiar with the fact, are you, that so far as the company's books are concerned, that they carry their acreage in operated and unoperated, just the two classes?

A. I do not know as to that.

Q. Have you ever used any different classification of leasehold acreages in your appraisements from this classification of 1, 2, 3, and 4?

A. I think in one or possibly two cases there were only three classes, 1, 2, and 3.

Q. Did you ever use the classification of "operated", "probably", "possible" and "unsatisfactory" in any of your appraisements?

A. I think not.

Q. You think not?

A. No, sir.

Q. Did you have any information as to how the company determined its operated acreage? Perhaps I better add to that so you will understand it better; the rule of adding to the operated acreage any leasehold, no matter what its size, if a well id drilled, a producing well is drilled on the leaseholds?

A. That is generally the accepted understanding.

Q. And is that the understanding that you accepted here in fixing the amount, of No. 1 acreage at 291,000 plus?

A. It was.

Q. What is your idea as to how much acreage is or ought to be included in a producing well?

A. Included in what way? I do not get your drift.

Q. Well, here is a lease of 500 acres and there is a well drilled on that lease; how much acreage do you consider

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[fol. 1584] ought to be included as affected by that producing well?

A. That would depend entirely on other drilling, dry holes or producers, in the vicinity.

Q. It would vary in various locations then, would it?

A. It would.

Q. And there would be no fixed acreage that should be attached to a producing well, is that your idea?

A. Yes, but I would still call all of that operated acreage, or classify it No. 1.

Q. Whether it is 500 or 50?

A. From the standpoint of lease, yes.

Q. That is what you are referring to, if the lease was 500 acres or 100 acres or 50 acres?

A. Yes, sir.

Commissioner Geiger: Just why would you do that? As I understand then you would put into your operating or your class No. 1 the number of acres that were conveyed by a given lessor; if a man had a farm of 500 acres and one well were drilled there, that 500 acres would go in as proved territory, as No. 1, would it not?

The Witness: Yes.

Commissioner Geiger: And if another man had 50 acres which he leased, that would also fall into proved territory?

The Witness: Yes, sir.

Commissioner Geiger: Depending upon the amount of land covered by that lease rather than upon the amount of territory proved by the well; is that the way you operate?

The Witness: Yes.

Commissioner Geiger: Well, now, there is not any connection between the two, is there? Because a person may

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[fol. 1585] lease 500 acres and strike one well on it, that don't prove that more than 50 acres has been tested, does it—simply because there happens to be a lease of 500 acres?

The Witness: It does not, and yet the well on 50 acres—it does not prove that the other 40 are good; I would class part of the 50 and part of the 500 "likely"; if I was making a classification I would put it in No. 2 and I would make it just as valuable as No. 1.

Commissioner Geiger: All right; of course the converse has not been touched upon; suppose there is acreage which you have classified as No. 1 because there has been a well drilled on it which has been a producer; then you go somewhere in the vicinity and drill a well that is a duster—produces nothing—I don't suppose you use the word "duster" in connection with gas wells, but is a non-producer, then how much acreage do you subtract from No. 1 because you struck a dry well?

The Witness: I would be governed in the division, of course, largely by the shape of the leaseholds, and other things that we find through experience that it might be put in the third or fourth class; a 500 acre farm may have a duster on one end and a producer on the other; from a practical standpoint the duster does not prove that a certain amount of the 500 acres is barren, nor does a producer prove that a certain amount of the 500 acres is good. The whole 500 acres ordinarily would be retained by the operat-

ing company for protection. You cannot divide it in the middle if it was a rectangular farm and say the north half with a dry hole is no good and the south half with a well is good.

Commissioner Geiger: Well, then the long and short of

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[fol. 1586] it is, getting down to the final judgment, you determine what shall go in class No. 1 not by what test wells have shown by acreages which have gas in them, but because a certain lease has been made of a man's farm and you have got to take it all or none; is that correct?

The Witness: That is practically correct.

Commissioner Geiger: So that it is the geographical outline of the farm rather than the gas content that determines which goes into No. 1 and which goes into No. 2; is that right?

The Witness: Yes, sir.

Commissioner Geiger: All right.

By Mr. Davies:

Q. Do you apply that same rule to No. 2 and No. 3 acreage, namely, that if you sink a well on No. 2 or No. 3 and strike a dry hole, that you conclude there is no gas in that acreage and take it out?

The Witness: No, we do not take it out.

Q. You leave that as No. 2 even if you do strike a dry hole?

A. Absolutely. A dry hole or a producer, you might say, only proves the area; the old fashioned saying was "The area which is occupied by a derrick", we all know that it has happened repeatedly that you go across the fence and drill and get a producer, from a dry hole, or vice versa.

Q. It only indicates just the uncertainties as to just where the gas is?

A. Yes, sir.

Q. As to where you will find it?

A. But we gain considerable knowledge by dry hole drilling.

Commissioner Geiger: Is this a result, in addition to what I have pointed out, that a producing well will test more acreage as being productive gas land than a dry hole will

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[fol. 1587] designate or determine as not gas land? If you drill one well on 500 acres then you say the whole 500 acres is good producing land, No. 1; if you drill a dry hole on another 500 acres you do not pick out that whole 500 acres but take out only that portion which is immediately adjacent to the line?

The Witness: Yes, sir.

Commissioner Geiger: In other words, the test of a producing well and a dry hole is that there is a very much larger acreage attached to a producing well than there is deducted or attached to a dry hole?

The Witness: Yes, sir.

Commissioner Geiger: I see; all right.

The Witness: We do that because we feel that when we have a producer it is an investment and we must protect it.

By Mr. Davies:

Q. A moment ago you spoke about No. 2 being practically tested; what do you mean by that?

A. Tested for—as being reasonably sure of producing.

Q. What makes it reasonably sure; what factors do you consider there in arriving at that conclusion that it is reasonably sure?

A. Well, first, the productive wells that have been drilled.

Q. Where?

A. Near it.

Q. What do you mean by "near"?

A. That is an arbitrary term; it may be 1,000 feet; it may be 200 feet; it is one of the uncertainties, one of the hazardous elements in the business.

Q. I see. I did not mean to interrupt you by putting that question. Continue with your answer if you have more to say about it.

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[fol. 1588] A. I do not believe I have; at least I have forgotten what the thread was.

Q. What are the elements of uncertainty, Mr. Wittmer, in arriving at this practical test?

A. Repeat that, will you, please.

(Question read.)

A. What practical test? I don't understand you.

Q. Well, you say the No. 2 is practically tested. Now——

A. The question is, what are the elements of uncertainty?

Q. That enter into that judgment that No. 2 is practically tested; I assume you mean by that it is practically tested for gas?

A. Yes.

Q. And you mean it is practically tested for volume of gas, quantity of gas?

A. Volume and rock pressures and formations; we must think of all three. If we drill dry holes across one farm from a producing farm we may get elegant formations that would conclusively tell us that the land between is very good gas land—very likely; it may not be drilled for years and years and yet it would be classed as No. 2.

Q. And from that standpoint of it being practically tested you come to the conclusion that the gas content of No. 2 is substantially equal to the gas content of No. 1?

A. Yes, sir.

Commissioner Geiger: Wouldn't it equally follow on that line of reasoning that the gas content of No. 2 is equal to the gas content of No. 2?

The Witness: Yes, with this exception, that it is more of a gamble.

Commissioner Geiger: I cannot see that it is more of a

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[fol. 1589] gamble for this reason—I may be wrong; here are sands that are saturated with gas or contain gas; now you have tested out No. 1 and you find that contains the gas and you are satisfied that it is 100 per cent or $100.00 in value; then you theoretically moved to No. 2 and you say that is equally as full of gas. Certainly if you are going to regard the flow of gas under the soil there must be at the edge of No. 2 a full charge of gas where it meets No. 3; otherwise you would not have it as fertile with gas as No. 1; now when you get to the edge of No. 2 and meet No. 3 you cannot say that the fact that it is fully charged with gas where it meets No. 3 would be any different from the condition it was where the edge of No. 1 met the edge of No. 2. Do you see what I am trying to say?

The Witness: Yes.

Commissioner Geiger: Consequently No. 3 would still have gas?

The Witness: We never find it so in practice.

Commissioner Geiger: I know you don't, but——

Mr. Turner: Why not let him answer?

The Witness: The best proof of that is this, if we try to buy or sell No. 3 we cannot either get or sell for anything like the price that you can for No. 2, but you can with No. 2. Now that is the thing that governs the value. That is the only way I can explain it; it is a practical problem. If we try to sell No. 3 for the price of No. 2 we cannot do it.

By Mr. Davies:

Q. Why not?

A. Well, we cannot get it.

Q. Because the gas men don't believe the gas is there?

A. I presume, yes, sir. I presume—and we don't believe 3105

[fol. 1590] it is there we would not buy it.

Q. You would not buy it with the idea that it was there?

A. No.

Q. In No. 3?

A. Yes. That there is a chance—there is a possibility, but the possibility is very much more—ten times as remote as it is in No. 2.

Q. And how much more remote is it in No. 4?

A. Well, considerably more, and yet it may be the most valuable. It is one of the hazardous things of the business.

Q. You are liable to strike it anywhere but you don't know where?

A. Absolutely.

Q. That is the uncertainty of the gas in the ground?

A. It is.

Q. Well, when you are considering Class No. 1 operated acreage you have on the average a well for every 100 acres haven't you, or less?

A. Do you mean in this case?

Q. Yes.

A. I don't know about that.

Q. I expect it figures out about 80—some 3,600 wells as I recall it.

Mr. Turner: Something around 80 acres—83 acres it is.

Q. On the No. 2 you have no producing wells now, have you?

A. No, no producing wells.

Q. Do you know how many dry holes on No. 2?

A. I do not; I am not interested in that particularly because the dry hole may be just as valuable to the operator as the producing well.

Commissioner Geiger: How is that?

The Witness: Not in dollars and cents, but in information, and we capitalize that—we have to in our business.

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[fol. 1591] By Mr. Davies:

Q. What has the sands to do with the gas content as between 1 and 2?

A. Well, that is a broad question.

Q. Does the quality of the sand have anything to do with the probable gas content?

A. Surely.

Q. Are you able very definitely to determine from a well on No. 1 what you would expect to get from a well on No. 2?

A. Not necessarily.

Q. What does the thickness of the sand have to do with the product of gas?

A. I would not consider the territory worth very much if you did not have a reasonable thickness of sand; you must have thickness and porocity.

Q. And the Clinton sands often are very hard and impervious almost, aren't they?

A. They are.

Q. In one place you will strike the Clinton sand that has a porocity and gives you a product?

A. Yes, sir.

Q. And in another place not far away you will find the Clinton sand so hard that you will get a dry hole; isn't that true?

A. That is true.

Q. If you find a sand with a thickness in No. 1 giving a good production you cannot—you have no assurance that you have the same thickness of sand in No. 2 adjacent to No. 1 tract, have you?

A. We do not.

Q. You may have the same thickness of sand and have a different product in quantity of gas, might you not?

A. Absolutely.

Q. You find even in your proven acreage that you can not say that because you find 13 feet of Clinton sand that you can bank on the quantity of gas that you will get from

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[fol. 1592] 13 feet generally, can you—do do you?

A. No.

Q. The same sand in the same thickness varies in quantity of product, doesn't it?

A. It does.

Q. And the thickness varies in different places, in different localities, as it moves along?

A. Yes, sir.

Q. Then you largely just estimate and form a judgment from results in No. 1 as to what you think will be in No. 2, is that right?

A. We do.

Q. And it is largely a guess, isn't it?

A. It is a guess based on experience.

Q. You have no reliable factors, have you?

A. We have not.

Commissioner Geiger: I think that we are not sufficiently enlightened by this gentleman as to how you have determined gas is retained in the ground. How we have been going some on the theory that it is like a body of water and seeks the same level and is in the sand that may be in that particular area. Now I have not gotten any information on that. It seems to me that where you find your gas depends upon the trend and the pitch of the rock. Because there is a layer of Trenton sand under a given surface does not indicate that you will find gas there. You haven't given us any enlightening explanation as to what the scientists have determined is the status of the gas in the ground.

Mr. Turner: Is that the witnesses' fault or the fault of the examination?

Commissioner Geiger: Well, anybody.

Mr. Turner: Well, he is only answering questions as asked.

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[fol. 1593] Commissioner Geiger: Well, I am just saying, we are groping the dark as to how you determine where you will find gas.

Mr. Turner: Your Honor has not been slow to ask questions. Suppose you ask him instead of telling him what he has not done. Nobody has asked him.

Commissioner Geiger: Well, are you a geologist?

The Witness: I am not.

Commissioner Geiger: Well, have you got a geologist who can explain to us how gas is contained in the ground under the surface?

Mr. Turner: We will get one for you.

Commissioner Geiger: Well, we would like to listen to one, briefly—not too long.

Mr. Turner: Oh, there you go again; will you guarantee to quit at a certain point?

Commissioner Geiger: No, I won't, because I want to know.

Mr. Huffman: No one has ever been down there, your Honor.

Commissioner Geiger: Let me ask you just one question; would you be able to say to us that a given number of acreage with Trenton sandstone under it is likely to contain gas in all portions of that area, determine upon whether the sandstone is there, or must there be other additional things that are not developed on the surface to exist under the surface—of the pitch and trend of the rock and the arch and anticlinals and all of those things that occur under the ground—do you know?

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[fol. 1594] The Witness: I do not want to be presumptuous, Your Honor. The general idea of the farmer, the land owner, usually is, because there is a well here there ought to be one there; in other words, they look at it as you said a moment ago as a lake or body of water; now it is in there, to my mind, in the sand, in the porous sand, and it is likened to me a little like the Canadian country; it is broken up with an immense number of lakes and bays and islands, etc. The sand is all there; the formation may be there; if you drill on an island, there is too much density and you don't get a producer; if you drill your well in a bay or a lake or in a river—you understand it is not done in that shape, but I am likening it to a map of Canada where there are a lot of lakes; if you drill your well within the area of that water you will get a producer; the sand is always there—not always, but presumably, and——

Commissioner Geiger: Well——

Mr. Turner: He was not through, Your Honor, why interrupt him?

Commissioner Geiger: The substance of that is that you have the territory in which you may reasonable be sure that there is gas somewhere within the limits of that territory but there is nothing that would tell you where you have to put your drill in order to strike the gas as against the place where you put the drill and find a dry hole; it is spotted and uneven?

The Witness: Yes, sir.

Commissioner Geiger: All right; we will adjourn until one thirty.

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[fol. 1595] Mr. Turner: Oh, he can finish his answer, can't he?

Commissioner Geiger: Yes.

Mr. Turner: Go ahead then.

The Witness: There are just two other points, one is that we cannot have production unless you have sand and porosity, and this particular area that we seem to be discussing is a bread area running up through the State of Ohio that seems to have been reasonably well proven as Clinton sand production, and along that trend the gas man seems to have a good deal of confidence that he is reasonably sure of getting production.

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[fol. 1596] Cross-examined by Mr. Davies:

Q. Mr. Wittmer, that is also to be taken into consideration, isn't there, the fact of varying initial rock pressures in connection with the various acreages?

A. There is.

Q. You have various initial rock pressures in the same fields, haven't you, the same general territory?

A. Not unless one particular part of the pool has been depleted. In a general way, I would say that it ought to be pretty near uniform in the same pool.

Q. But the various pools will have different initial rock pressures, will they not?

A. They may.

Q. Of course, you assume that these various leasehold acreages contain gas, that is to start with, do you not?

A. To a reasonable extent.

Q. Yes; and you seek to determine the probable amount of gas that is contained in the acreage, do you not?

A. No, I can't say that we do. We don't particularly endeavor to find out how much they contain; we endeavor to get production, and the answer to that would be eventual recovery of the gas.

Q. The amount of gas that is in a given acreage in the end determines its value?

A. Yes.

Q. And you attempt to get as close to that as you can in 3112

[fol. 1597] making your estimates?

A. We attempt to get it all out. The amount will depend on the size of the particular lens or pool.

Q. What do you mean to say that you try to get it all out; you try to estimate the maximum quantity that is there?

A. We don't estimate it; we don't estimate it.

Q. What do you do?

A. In the operation of a gas property we have discovered gas on leases, and when we have learned of its extent, the attempt is made to get that gas out in as economical a way as possible. We are not particularly concerned as to the amount; if we know it is a small pool we will do less drilling.

Q. But in the end is the quantity of gas in a given acreage a factor?

A. Certainly.

Q. Yes, and that is one of the factors that you take into consideration in putting a value on the acreage; isn't it so?

A. Yes.

Q. And of course it necessarily follows that an acreage with a lesser amount of gas in it than another given acreage would be naturally less valuable?

A. Yes.

[fol. 1598] Q. Did you make a study of the various leases for this leasehold acreage that is in the possession of The Ohio Fuel Gas Company?

A. Not individually.

Q. You made no examination of the individual leases?

A. No.

Q. Did you examine the 122 types of leases?

A. In a cursory way, yes.

Q. Just what do you mean by a cursory way, Mr. Wittmer?

A. The leases, as a whole, are of the usual type of lease-

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[fol. 1599] holds as taken in Ohio for other states, and I only looked at them with the idea of learning whether they covered the principal points or conditions that interest gas people; that would mean royalty conditions, rental conditions, term of lease; and then there might be some special condition.

Q. What is your observation with reference to the general royalty provisions in the leases?

A. There is the usual form, provides for the usual royalty from 200 to about $300 per acre.

By Mr. Turner:

Q. Acre or well?

A. Per well; 200 to $300 per well per annum. In some cases there are special royalty conditions, one-eighth of the amount of gas that may be produced, or an increase above $300.

By Mr. Davies:

Q. Did you observe that some of them were for $100 per well per annum?

A. Yes.

Q. Did you observe that generally they provided for $200 per well per annum?

A. Yes.

Q. And the exceptions were the 100 or the 300?

A. Yes.

Q. What is your observation with reference to the so-called special rentals?

A. There was a variation there. In a general way the leases call for from 50 cents to $1.00 per acre per annum.

Q. What did you notice with reference to the terms of the lease, that is the duration of the lease?

A. Usually 10 year leases.

Q. Usually ten?

A. Yes. Some of them are for longer time; I think there are some shorter.

Q. Did you notice there were a few of them for at least a term of two years?

A. I don't believe that I can answer that.

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[fol. 1600] Q. You are not sure about that?

A. No.

Q. Do you know that some of them were five?

A. Yes.

Q. And you know a great many of them were ten?

A. Yes.

Q. Would you say that the greater number of them were 10?

A. Yes.

Q. Did you notice that some were for 15 and some for 20?

A. Yes.

Q. What did you notice in those leases with reference to a provision for renewals?

A. I believe there were some provisions of that kind, although I didn't pay much attention to that.

Q. You are not sure about that, however, are you?

A. No.

Q. You can't point out to me one of those types of leases that has that provision in it?

A. I cannot. It didn't make any material difference in my opinion.

Q. Do I understand you to say that the fact of no renewal clause would make no difference in your judgment as to the value of a given lease?

A. Well, it would make some difference, yes; but not very material. A ten year lease is a lease of the usual length of term, and we consider that pretty good.

Q. What would you say in comparison between a 10 year lease and a two year lease?

A. Well, the two year lease I would expect to either operate or surrender when its term expired.

Q. It wouldn't be as valuable in the market, would it?

A. Well, it wouldn't have very much bearing.

Q. If it was a piece of property that you were at all in-

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[fol. 1601] terested in you would have the question of renewal in connection with it, would you not?

A. If I was very much interested in it, it wouldn't make much difference for the reason that I would operate it.

Q. You would drill a well?

A. Yes.

Q. But you would have to drill a well in order to protect it, would you not, or obtain a renewal?

A. Yes, yes, surely.

Q. Either one of the two?

A. Yes, either drill or renew.

Q. And neither of those conditions would necessarily operate with reference to a ten year lease, would they? You would have that whole time to determine what you would do?

A. Yes.

Q. What effect would it have in your judgment on the value of a lease that provided for a 200 per well per annum, and one that provided for $300 per well per annum?

A. Well, the $200 per annum royalty, of course, is more attractive than a $300 royalty provision; but even that is not material, not very material.

Q. You wouldn't consider that very material?

A. No. If I expected to get reasonably good wells, there is no reason why I shouldn't want to pay $300 per year royalty on the well.

Q. Did you notice that there was quite a difference between the leases of the earlier days from the standpoint of the few conditions that were in them as compared with the leases of later date that have a great many provisions and conditions in them?

A. Yes, that is probably true.

Q. Would there be in your judgment any difference in

3116

[fol. 1602] the value of the one lease, that is the short form or the other lease, the long form that I have just indicated to you?

A. Not much difference in value.

Q. So that you gave practically little or no consideration to the conditions in the leases, is that true?

A. That is true.

3116

[fol. 1603] Q. What information was furnished to you by the company for the purposes of the appraisal?

A. Well, it was rather voluminous. The material that you have here on the table I guess covers it pretty well. I couldn't recite the titles and so forth of the different vol-

umes; it was very voluminous, though; a great deal more information than the average gas man would need for that purpose.

Q. Well, would you consider that the information that was furnished to you was quite complete for the purposes of the appraisal?

A. Very complete.

Q. Would you consider that they were quite as complete as would at all be necessary or be required by a prospective purchaser?

A. Yes, I would.

Q. In considering a purchase?

A. Yes.

Q. You wouldn't desire any further information either for the purpose of appraisal or for the purposes of a purchase, would you?

A. Not any further information. I might want to make an examination of every well.

Q. You might want to verify the information; is that the idea?

A. Yes.

Q. I hand you what for the purposes of identification has been marked City's Exhibit No. 62, entitled, "The Ohio Fuel Gas Company; summary of gas wells. Recapitula-

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[fol. 1604] tion. Initial open flow capacity, calculated production; corrected production 1928; calculated daily production 1929; annual capacity, if used average time of 238 days," and ask you if that is a summary of detailed information that was given you on that subject?

A. It is.

Q. I hand you what, for purposes of identification has been marked as City's Exhibit No. 63 entitled "The Ohio Fuel Gas Company, Summary of gas lands as of June 30th, 1929, summarized by counties", and ask you if that is a summary of the information furnished you by the company and for which they furnished you also the details?

A. It is.

Q. By counties and townships and so forth?

A. It is.

Q. I hand you what for purposes of identification has been marked as City's Exhibit No. 64 entitled "The Ohio Fuel Gas Company, Summary of gas wells as of June 30th,

1929, recapitulation," for counties named, and the information as indicated in that exhibit, together with the detailed information by well; was such information furnished to you?

A. It was.

Q. And the information of which 62, 63, and 64 is a summary, together with the maps, indicate principally the information that was submitted to you?

A. It is.

Q. In answer to one of my questions you indicated that in addition to that information you would want to make a personal investigation of each well. For what purpose would you want to do that?

A. In order to check from my observation against the information that had been supplied, wells, leases, open flows and so forth, just like looking at the physical property when you are buying a house. I would presume it is

3118

[fol. 1605] comparable to that.

Q. Study the declining rock pressures and so forth?

A. Yes.

Q. Did you make a study of that kind in this case for the purpose of appraisement?

A. No, I did not.

Q. According to the Exhibit that I have before me, you appraised the class No. 1 operated acreage at $74.90 per acre, is that correct?

A. No. 4?

Q. No. 1.

A. $75.00 per acre.

Q. $75?

A. $75 per acre.

Q. Did you know that it was set up in an exhibit that was submitted in this case at $74.90?

A. I did not.

By Mr. Turner:

Q. You submitted round figures for each of your valuations, did you not?

A. Yes.

Mr. Turner: So if we got it $74.90, we have done the dividing. We took off 10 cents. No complaint about that.

Mr. Huffman: That is generous; it is so unusual.

Commissioner Geiger: It is in your favor.

By Mr. Davies:

Q. Mr. Wittmer, in arriving at that valuation per acre, what factors did you use, in other words, how did you arrive at that figure?

A. Well, that may be rather difficult to explain. The round figures of $75 per acre I would say were arrived at principally after estimating the probably recovery of gas, what gas lands of those classifications usually bring in the open market, the type of territory, the producing sand and many other things.

Q. What is the estimate of the probable recovery of gas per acre in your No. 1 operated?

A. I do not know.

Q. Haven't you any idea?

[fol. 1606] A. Yes; the probable recovery of No. 1 will vary

3119

from 2 to 10,000,000 feet per acre. It will even exceed that in some cases, and of course we all know that in some cases there will be no recovery. I believe an average of 4,000,000 feet per acre would be a fair and reasonable estimate.

Q. 4,000,000 cubic feet per acre, is that what you mean to say?

A. Yes.

Q. That is what you are putting as the average?

A. Yes, sir.

Q. For No. 1 in this case?

A. Yes.

Q. And what did you figure No. 2 at with reference to the estimated recovery?

A. I would probably figure about the same recovery.

Q. Well, did you, as a matter of fact, so figure it?

A. I don't believe that I can truthfully say that I did. I based your estimate more on one of the other factors; the factor of going value of leaseholds of that classification.

Q. What do you mean by going——

A. For which they could be bought or sold.

Q. For which they could be bought or sold; No. 2 acreage?

A. Yes.

Mr. Turner: As I understood it applied to all.

Mr. Davies: No, I was just directing his attention to No. 2.

The Witness: Well, that is applicable to both, to all four classifications.

Q. But in connection with your estimate you are putting your probable recovery on the average 4,000,000 cubic feet per acre.

A. Yes, sir.

3120

[fol. 1607] Q. Now, where did you find the largest probable recovery per acre in this field of 291,000 acres plus?

A. I didn't determine which one particular county might have the greatest recovery of gas. That is more or less problematical.

Q. And where did you locate the acre that had a probable recovery of gas of only 2,000,000 cubic feet?

A. I didn't determine that. I only figured that from our own experiences in Ohio.

Q. Irrespective of the particular leasehold acreage?

A. Checkerboarded in among our own acreage.

Q. Taking it along with all the other acreage that you have in Ohio?

A. All of our leaseholds are checkerboarded more or less with the Ohio Fuel and East Ohio Company.

Q. And what is the amount of your acreage?

A. Well, I would have to check up now, because I don't remember what I said this morning.

Q. Well, I don't either.

Mr. Turner: He told you this morning he didn't know and would have to guess.

Mr. Davies: Well, I don't remember what he said.

Commissioner Geiger: About 10,000.

Q. About 10,000 was it, in operated acreage?

A. I think so—no, I think I said 25, wasn't it?

Q. You said you thought you had about 25 wells in about 10,000 acres, didn't you?

A. About, yes.

Q. Well, is that substantially correct or do you mean you are so uncertain about it you can't tell from morning till afternoon which it is?

A. I am rather uncertain about it, I will admit that. We have been operating and we have been selling our property

3121

[fol. 1608] and we have been buying property, and it is very difficult for me to remember those things.

Q. What probable recovery did you find for No. 3, class No. 3?

A. I didn't estimate a recovery; I didn't use that as a basis.

Q. I see, at all. Well, in connection with class No. 2, you arrived at practically the same figure per acre as you did for class No. 1, did you not?

A. I did.

Q. $75 per acre?

A. I did.

By Commissioner Geiger:

Q. Let us have all those in their order. Class No. 2 you had $75; what was No. 3?

A. $10.

Q. And what No. 4?

A. $3.00.

Mr. Huffman: The company took two cents off of one; $9.98.

Commissioner Geiger: Well, they put 10 cents on it.

Mr. Turner: Oh, no, we took it off.

Mr. Davies: Let us be fair with them. The exhibit shows——

Mr. Turner: We always deduct against ourselves.

Mr. Huffman: Depending on the amount.

Commissioner Geiger: Ten cents an acre is $19,000, considerable money in these days.

Mr. Turner: Yes, sir.

Q. What element then did you use in No. 3, Mr. Wittmer, in arriving at your value of $10 per acre?

A. Principally the going value of lands of that type, that classification.

Q. Going value; I don't just understand what you mean by that.

A. For what they can be bought and sold.

Mr. Turner: To answer Judge Geiger's question, these

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[fol. 1609] figures of Mr. Wittmer's were, for instance, $21,825 for the No. 1; they were lump sums, and we divided them here in this exhibit, and that is the way they came out. That is how we happened to get the ten cents.

Commissioner Geiger: It must have been more than 21,000.

Mr. Turner: 21,000,000, yes.

Commissioner Geiger: That is a little different.

Mr. Turner: John said 291 acres, and I was trying to be just as good to them.

Q. Do I remember correctly that you said this morning that No. 3 and No. 4 acreage were practically not saleable?

A. Oh no.

Q. You didn't say that?

A. Oh, no, indeed; I don't think I did.

Q. I thought you said this morning in answer to Judge Geiger's question that the No. 3 acreage, you couldn't sell No. 3 acreage?

Mr. Turner: Oh, no, no.

The Witness: I didn't intend to convey that idea at all.

Q. I see. Well, let us get it correct.

A. I couldn't do that and then put a value of $3,000,00- on No. 3; $6,000,000 on No. 4. I am sorry if I did convey that impression.

Q. Well, I would like, if I can, to get your mathematics on your No. 3, to get how you arrived at the $10 per acre for No. 3 acreage, making a total of $3,120,000 on 312,631 acres. How did you arrive at that?

A. We would be willing to pay or we would be willing to sell acreage of that kind in our dealings with the gas companies and with individuals; I arrived at that figure.

3123

[fol. 1610] Q. You arrived at it then from the standpoint of what you or your company would be willing to do; is that right?

A. Yes, that was one of the factors.

Q. Well, what other factor?

A. Any other company.

Q. Your judgment is that any other company would be willing to do the same thing that you would do?

A. In my judgment other companies have done so, and we have done so.

Q. Sold No. 3 acreage?
A. Yes.
Q. Alone?
A. No, in connection with other land.
Q. Oh, in connection with other land?
A. Yes, indeed.
Q. Never alone?
A. No, no.

By Commissioner Geiger:

Q. Is there any difference in the deferred rental on different classes of land?

A. There is some difference.

Q. Well, does it run in proportion somewhat to the price that you have fixed upon it?

A. No, that has no bearing on it.

Q. What would be the deferred rental ordinarily on an average on that which you have fixed as No. 4 at $4.00 per acre?

A. From 50 cents to $1.00 per acre; it may be as low as 50 cents and as high at $1.00. That seems to be a uniform——

Q. If you bought the lease, then do you still continue to pay—you pay the rental, continue to pay the rental, the deferred rental to the land owner?

A. If you have bought a lease?

Q. Yes, if you went out and paid $3.00 per acre for this, would this relieve you of that deferred rental?

A. No.

Q. Or would you continue to pay it?

A. You would have to continue to pay in the ordinary

3124

[fol. 1611] lease.

Q. And so it would be for all others that you had agreed to pay or buy, you would simply buy the lease?

A. From an owner of the land we would buy the leases for $3.00 per acre; the land owner would be getting his 50 cents or his $1.00 per acre deferred rental.

Q. You would be required to pay that, of course?

A. Yes.

By Mr. Davies:

Q. So, Mr. Wittmer, in connection with your No. 1 operated, you didn't study either each leasehold or each acre or each well to determine its probable gas content, did you?

A. No.

Q. In this case?

A. No.

Q. You depended largely on your experience and observation in all fields, all the gas fields that you have been drilling, is that right?

A. That is true; but the prices arrived at here were based on Ohio conditions and values that you would apply on leases in Pennsylvania or New York State were entirely different.

Q. I understand.

A. Yes.

Q. But you were, of course, taking that general information and then particularizing it with reference to Ohio conditions; you came to the conclusion that there is this estimated quantity of gas per acre in the United Fuel Gas Company's leasehold acreage—Ohio Fuel Company's leasehold acreage?

A. Yes, sir.

Q. So from that standpoint a great deal of this information that was furnished to you was not of very much value, was it?

A. It was of very, very material value.

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[fol. 1612] Q. All right; to what extent?

A. Well, it is absolutely necessary to know about rock pressures.

Q. I see.

A. Initial open flow, thickness of sand, the general location of leaseholds, whether they are in the trend of the Clinton sand belt running north and south through Ohio and things like that.

Q. That is what you meant by saying that you took general information and particularized it with this information——

Mr. Turner: He is trying to tell you that he got that out of the information furnished him.

Mr. Davies: I am trying to see if that is what I understood he said——

The Witness: Yes.

Q. You came to a conclusion with reference to an average decline in rock pressure in the wells on this operated territory?

A. Not in this particular operated territory, no.

Q. Then of what value was that information to you with reference to rock pressure if you didn't take that into consideration?

A. I presume I had my answers rather confused. It was necessary to get this information from these records, and the decline in rock pressure, and in volume and so forth, was used in a general way to give a picture of the life probable recovery of gas.

Q. Well, did you make figures and calculations for that?

A. Oh, no.

Q. Or did you just look it over and form a general impression from that sort of examination of the information?

A. I just made an examination and arrived at my con- 3126

[fol. 1613] clusion from general information that I got from these records.

Q. And not from——

A. Without any calculation.

Q. Without any calculation?

A. No.

Q. And you came to these conclusions from that standpoint?

A. Yes.

Q. What figure did the price for which gas sells have to do with your valuation?

A. None whatever.

Q. Nothing whatever; if gas was selling in a market at 20 cents, and that was the general market price for gas, would that have any influence with you in arriving at your value of a gase leasehold acreage?

A. Not in this case.

Q. Why not in this case?

A. Because, natural gas in Ohio as well as in Pennsylvania, New York, and West Virginia has always had a market; it has never gone begging.

Q. It has never what?

A. It has never gone begging; in other words the matter of finding markets is merely a secondary consideration; secondary in the sense that——

Q. Well, would the amount that you could get in your market have some figure?

A. The amount of gas?

Q. The price that you would get for gas in any of these markets that you are talking about, cut some figures in the value of gas leasehold acreage?

A. It should.

Q. It should?

A. Yes.

Q. And it would, of course, wouldn't it?

A. If I didn't make myself clear, for my purpose in arriving at these figures I assumed that gas was just what it always has been.

Q. Well, what has it always been?

A. It has been the finest fuel in the world; it has never had to seek a market, the markets seek it.

3127

[fol. 1614] Q. At what price?

A. At a reasonable price in comparison with any other fuel.

Q. Then you were calculating then the price from the standpoint of gas as a competitive fuel in an unregulated market; is that right?

A. Well, I presume so, yes.

Q. That would be the highest price that you could hope to obtain for gas from the standpoint of a competitive fuel?

A. Yes.

Q. In an unregulated market. If it was in a utility market, then what?

A. I wouldn't be interested.

Q. You wouldn't be interested; you are only interested in non-utility markets, is that right?

A. Well, I am only interested in a non-utility market because there is no money in a utility market.

Q. There is no money in a utility market?

A. We have never been able to make any money.

Q. Well, if this leasehold acreage was committed to a utility market, what effect would that have on the leasehold acreage value.

A. Well, I don't know just how much regulation there might be. If it would be regulated to the point of putting the gas producer out of business, I don't believe I would want to get in the gas business.

Q. There wouldn't be a market for this leasehold, would there?

A. Not if there was no unregulated market, no.

Q. It is the unregulated market that makes the market for the leasehold, isn't it, gas leasehold acreage?

A. No, no.

Q. Pretty largely?

A. No, I wouldn't say that.

Q. What did you mean when you said what you said a

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[fol. 1615] moment ago?

A. Because I would particularly cater to an unregulated market, that doesn't say that if there was only a regulated market that it would have to be a confiscating market, a market that would be confiscatory. I don't believe that would hardly be permissible, and I can't conceive of anything like that.

Q. Well, if the regulated market holds the price below the competitive fuel unregulated market—do you get that?

A. Repeat it please.

Q. The leasehold acreage would not be so valuable in the market, would it?

A. Well, that is rather a difficult question to answer.

Q. Well, let me put it this way; assume now that there is an established market for gas at 30 cents; would that have any effect on the value of gas leaseholds acreage if you were valuing it; wouldn't that be a factor that you would take into consideration in making your value?

A. Would it be a utility market?

Q. I am putting it anywhere now, generally; I am assuming that the market value for gas——

A. Is 30 cents.

Q. Is 30 cents; would that be a controlling factor or a factor to be considered if you were appraising the gase leasehold acreage that was furnishing that gas?

A. Well, I can only answer that yes; I can't answer it any other way.

Q. Yes; and if that market was changed from 30 cents to 50 cents, for instance, wouldn't that be a consideration that

you would give effect to in arriving at the value of any gas leasehold acreage tha: was furnishing the gas to that market at that price?

A. If that 50 cent rate was permanent, yes.

3129

[fol. 1616] Q. I am saying about a reasonably established market?

A. Yes, surely, no question about that.

Q. In other words, you would give naturally a higher value to the gas leasehold acreage in the 50 cent market?

A. Yes.

By Commissioner Geiger:

Q. Aren't we just getting in a circle? We will never be able to get any place on that. Isn't this what you consider in estimating the value of those acres; the prospect of making a profit, and upon the drilling and transporting and selling of that gas; if you couldn't make a profit it wouldn't be worth anything, would it?

A. It would not.

Q. Then you have got to consider the question of profit, have you not?

A. Yes, sir.

Q. You would have to consider the availability of markets?

A. Yes, sir.

Q. And you would have to also consider what you think the market would be willing to pay for that gas, whether it be regulated or unregulated?

A. Yes, sir.

Q. And you can't avoid in estimating the value of acreage a consideration either direct or indirect as to the price for which you are going to sell the product when you take it out of the ground, isn't that right?

A. Yes.

Commissioner *Beiger*: Well then, why dig around here in to all this stuff? If you couldn't sell the gas but for 10 cents an acre, you wouldn't take the best acreage in the state of Ohio as a gift; so that your estimate of your profit, is what really controls what you think the acreage is worth.

3130

[fol. 1617] Mr. Turner: That wasn't what he said, Your Honor.

By Commissioner Geiger:

Q. Well, isn't that so?

A. Substantially.

Q. All right.

A. We must keep in mind a lot of things in connection with natural gas as a competitive fuel. I said a moment ago, it is the finest fuel that has ever been produced. In competition with other fuels I don't believe that there is any comparison at present market prices, and when I put a price on leaseholds that have a probable recovery of $1,000,000 or 10,000,000 feet of gas per acre, it is on the theory that natural gas, without any serious competition, can always be marketed. When we were in the domestic business as a utility, and when we were supplying gas to industrials, the industrial business was always very much better business than the domestic business. We wouldn't think of distributing gas to domestic, only we were a utility and were compelled to do it. We would have gone out of business very early if it hadn't been for the industrial business that kept it going. I don't believe that natural gas will ever go begging anywhere. They are transporting natural gas for a thousand miles into Chicago, and I don't know why you couldn't take natural gas from Ohio and transport it only one-third the distance for very, very much less money than what they are transporting it in from West Texas. The same thing is true about Detroit.

By Mr. Davies:

Q. So if I understand you right, Mr. Wittmer, you arrived at your valuation here as you have indicated by the application of your general experience and general observation, and the general examination of the information sub-

3131

[fol. 1618] mitted to you, in the amounts as are indicated on page 19 of exhibit 44, namely class No. 1 operated 291,396 acres, $21,825,000, class No. 2 unoperated 164,739 acres, $1,230,000; class No. 3 unoperated 312,631 acres, $3,120,000; class No. 4, unoperated 2,065,421 acres, $6,195,000, making a total of $43,440,000?

A. It is.

Q. And that is the method by which you arrived at those figures?

A. Yes.

Q. Did you give any consideration to the cost of these leaseholds to the company?

A. Originally.

Q. Yes.

A. No, I did not.

Q. What consideration did you give to the fact that the delayed rentals are charged to operating expense?

A. I didn't consider that.

Q. And that the delayed rentals for the year 1929 amounted to $1,600,000 plus?

A. I didn't give that any consideration.

Q. Or did you give any consideration to the fact that the dry holes are charged to operating expense?

A. No, I didn't.

Q. And did you give any consideration to the fact that the royalties are charged to operating expense?

A. No.

Q. All of these questions with reference to the whole acreage?

A. Yes. I did not. That is usual practice with all other companies; that is the way we carry out our practices.

Q. I understood you to say that you had made no calculation of the reserve acreage in three or four, recovery possible in three and four; is that right?

A. I don't get the question.

Q. Am I right in my understanding that you said that you

3132

[fol. 1619] made no calculation of the possible recovery of gas in classes 3 and 4.

A. Yes. I didn't figure on a fixed amount of gas recoverable in three or four; but we do know, and I take into consideration fully, that there is gas recoverable in both of those classifications; there is no question at all about that.

Q. You just feel there must be some gas there?

A. Absolutely. I wouldn't give it any value if I didn't feel that way.

Q. You don't know how many holes have been driven on three, do you?

A. No, indeed.

Q. Nor on 2?

A. No.

Q. Nor on 4?

A. No.

Q. And generally speaking, they are away from present production, is that right?

A. Generally speaking, yes.

Q. Although it is interesting, isn't it, that you do frequently have situations where you have three continuous to one, is that right?

A. Yes, that is possible.

Q. Didn't you find in your examination that you frequently had two and three classifications around a given No. 1?

A. No, no.

Q. Did you observe that at all in connection with these properties, that a No. 3 was contiguous to a No. 1?

A. No, I didn't. I didn't go into the details of the No. 3 classification to that extent.

Q. Or the location to that extent?

A. Yes.

Q. You didn't go into an examination to that extent?

A. No.

Q. How does it happen that you give the same valuation

3133

[fol. 1620] value per acre for No. 1, and No. 2; how do you explain that?

A. Well, I am sorry that I will have to answer as I did before; that in my opinion No. 2 classification has just as much value as No. 1.

Q. You mean as much gas content do you mean by that?

A. Gas content, protection, reserve, and all those things. They are all valuable factors.

Q. Well, what effect did you give to the fact No. 1 is partly depleted?

A. That was deliberated on, and I still feel that it has that value.

Q. You feel that with the uncertainty that is bound to exist in the gas question, that there is probably as much in No. 2 now——

A. As still is left in No. 1.

Q. That is the way you arrive at it?

A. And you still have to drill your wells on No. 2 to prove it.

Q. Yes, and it may be there and may not be there.

A. Very true.

Q. Mr. Wittmer, do you have any idea that on June 30th, 1921 the Ohio Fuel Gas Company was in the market as a willing seller of this total gas leasehold acreage that we have been considering?

Mr. Turner: Objection.

(Question read.)

Commissioner Geiger: All right, you may answer.

Mr. Turner: Note an exception.

The Witness: No, I do not.

Q. Was there on June 30th, 1929, a willing seller of gas leasehold acreage in Ohio in any way comparable to the whole leasehold acreage under consideration here?

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[fol. 1621] Mr. Turner: Same objection.

Commissioner Geiger: Well, he is really not supposed to do that; he hasn't been qualified on that. If you know; do you?

The Witness: I do not know.

Mr. Huffman: He is trying to fix a market value——

Mr. Turner: Certainly; but that doesn't mean that any one particular person is offering to sell; that is not the test of a market value.

Commissioner Geiger: Well, he says he don't know gentlemen.

Q. Did you, as of June 30th, 1929, know of any sale in Ohio in the immediate past before that date of leasehold acreage in any way comparable in size and so forth with the whole leasehold acreage under consideration here?

A. I know of quite a number of smaller size.

Q. I asked about this size?

A. No.

Commissioner Geiger: What did Mr. Dalley give as the valuation of No. 3?

Mr. Turner: $2.00.

Mr. Davies: No, no $20.00.

Mr. Turner: Oh, No. 4, $2.00, $20 for 3.

Commissioner Geiger: He was 90, 100, 20 and 2.

Mr. Turner: Yes, sir. It is all set out on page 19 of Exhibit 44, all of these witnesses, so that you can short-cut there by taking that exhibit at any time.

By Commissioner Geiger:

Q. Did you and Mr. Dalley collaborate in estimating the value of this acreage?

A. No, indeed we didn't.

[fol. 1622] Q. You did it separate, one from the other?

A. I didn't meet Mr. Dalley at all during the time that he had his information and I had mine.

Q. You had no information as to what value he was putting upon the acreage?

A. Absolutely not.

Q. With whom did you work?

A. With nobody excepting our own people in our own office.

Q. That was where?

A. In Pittsburgh.

Q. You never made a physical examination of any of this property?

A. I did not.

Q. Purely a paper appraisal?

A. Yes.

By Mr. Turner:

Q. You have properties in the same locality, have you not, in the same counties?

A. We do.

By Mr. Davies:

Q. Do you know how much gas leasehold acreage the Ohio Fuel Supply Company acquired in the year 1928?

A. I do not.

Q. Or the year 1929?

A. I do not.

Q. Do you know how much or at what figures they obtained acreage during 1928 and 1929?

A. I do not.

Q. Would the fact that they obtained during the years 1928, '28 and '29 a total of 1,919,321 acres have any influence with you on the price that you would fix on the acreage in this case?

A. I believe not.

Q. Would the fact that they obtained that large quantity of acreage substantially and generally on the basis of $1.00 per acre delayed rentals, and generally speaking for $200 per well per year, have any effect in connection with your appraisement of the acreage?

A. It would not.
Q. In this case?
A. It would not.

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[fol. 1623] Q. Would the amount that it cost the company to obtain this acreage have any effect on your estimate of its value?

A. If it was unreasonable; if the prices at which they might acquire leaseholds was unreasonable it would, yes.

Q. Did you know what that fact was?

A. I assumed that it was only normal, because we were leasing in the same counties that they were at the same time.

Q. What do you mean by normal?

A. Well, normal conditions, taking leases without any down payment, 50 cents or $1.00 per acre delayed rentals, $200 a year royalty on a gas well. We might go in somewhere where there is extreme activity and pay $10 per acre, $50 per acre for leaseholds. That would be more than normal; those leases would be pretty valuable leases.

Q. So that normal condition, as you indicate it, was prevalent during the years 1927, '28 and '29?

A. I think they were.

Q. And much acreage was obtained in that way?

A. Yes.

By Commissioner Geiger:

Q. Right now, here at that point, assuming that during normal times during the years over which you spoke you were able to obtain leaseholds at an average of $1.00 deferred rental per year and an agreement to pay $200 on each gas well dug; that you say is normal?

A. Yes.

Q. Now, just what enhances that value which you pay as the first lessor to the land owner of $75 an acre; if it is only worth to the land owner an annual rental of $1.00 per acre and a royalty of $200 per gas well; now, that is all the land owner gets out of it and that is all the first lessor pays for it, isn't that correct?

A. That is correct.

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[fol. 1624] Q. Well now, assuming that this company was the first lessor that obtained that from the land owner, where is the element that jumps the value of that which they get from the land owner at one dollar per year up to $75 an acre in addition to the $1.00 a year which is to be paid to the land owner?

A. There is very little proven land, $75 acre land, leasable at this time.

Q. That is right; now I have got you. The idea you have in mind is this, by reason of the fact that this company is able to go in and secure all gas producing lands and hold it under a lease, gave them a value that didn't exist before the leases were put upon that land, the fact that they are put under lease and held together by one company enhances the value to $75 an acre where it is just one lease?

A. No, that is——

Q. Well, what other element is there in there that made it worth $75 an acre?

A. The land that you are speaking about is land that was leased during these normal times, '27, '28 and '29; that was this wildcat land. It only has a value of $3.00 or $2.00 per acre. It cost considerable to pick up the land and carry it, record it, whatever expense there may be connected with it. A lease broker goes out and picks up 10,000 acres of land and he pays $1.00 down and he gets it for $1.00 an acre, and he takes it to the Ohio Fuel or East Ohio or some other company and he expects to make a little money on it. These leases have got to be carried and recorded, I don't know what all they do with them. That land is worth only $2.00.

Q. None of this land that is now in your judgment worth

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[fol. 1625] $75 an acre was leased in those normal years of 1927, '8 and '9; the lease from the land owner to some gas company or some person who took the lease from them for gas purposes was made prior to those years?

A. That is my idea of it.

Q. Well now, assuming that that were true; at some time in the past a lease was made by the land owner to a gas company or to somebody gathering these leases for the purpose of selling them to the gas companies, and they were leased for $1.00 an acre, and an agreement to get $200 a gas well. Now, confining your operation to what you say now is worth $75 an acre, wherein has that spread between what they paid the land owner for the lease and what you

now estimate to be its value; has that come from the fact that the gas company has gotten under lease all available gas lands and there is no more to be secured?

A. Oh, no, no.

Q. Well, what is that element of jump between what you pay the man who owns the land and what you say it is worth now?

A. You may have drilled a number of producing wells or dry holes that has added to the cost. We have paid $1.00 an acre per annum——

Q. Wait a minute.

Mr. Turner: Let him go on, Your Honor.

Q. We understood those are all charged to operating expenses.

Mr. Turner: Who pays the operating expenses?

Mr. Davies: The consumer.

Mr. Turner: Oh, no, we are in red ink right now.

Mr. Huffman: Well, there is a reason for that. We will show that——

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[fol. 1626] Commissioner Geiger: Well, he can say if you think the development of that land and the drilling of holes actually required an expenditure of money which has enchanced the value of the land since the company got it. That is, I think, perfectly proper.

Mr. Turner: Well, that is what he was starting to say.

Commissioner Geiger: If you gentlemen say that was the ground of your enchanced value, that would be all right.

Mr. Turner: Well, you stopped him.

The Witness: Well, that is my idea; if you hold a lease for ten years, you pay $1.00 an acre per year, you have got that added to it; and there is a lot of it that you have paid—thousands and thousands of acres, you are carrying 2,000,000 wildcat land that you pay rental on it, possibly for one to ten years and then you may throw it up; and you have paid that; it has got to be taken out somewhere, and that has got to be added somewhere else, probably to the land that is operated and where you expect to get your return; you expect to get your return from the gas.

Q. Well now, the city, without passing on whether they are right or not, as I understand their claim is that these rentals which have been paid over a period of ten years

we will say, have been charged as operating expenses and charged back so that the person who has bought the gas reimbursed the company for the expenditure of that money each year as it is paid out and the company really has recovered back in its natural operation of its gas plant and collection of prices from the consumer all that it has paid out in deferred rentals over a period of ten years, or any other

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[fol. 1627] number of years. Would that make any difference if that be true? We are not saying whether that is true or not. Is that substantially your claim?

Mr. Davies: One of them.

The Witness: Well, I presume it would have some bearing.

Q. Would that make any difference in your estimate of the present value of the land, if it be so?

A. No, it wouldn't. I have tried to state a number of times that in the handling of commodities there is a lot of lost motion, and a lot of cost. If I would take these leases, or if the Ohio Fuel Gas Company would want to sell those leases, I don't think there is any question but that they could be sold for that price; and more for that reason than any other reason do I put those values on those leases.

Q. Well, right there let me ask you a question; assuming they could be sold for the prices that you have set upon them, then the Ohio Gas Company would have more money than they had put in them, they would have made a profit. Now, out of what have they made that profit; is it out of the fact that they have gathererd together a great group of lands and hold it as a practical monopoly, or does it grow out of something else? They are going to make some money if they sold it at that amount; they would make considerable sums of money, wouldn't they?

A. They can't afford to sell those leases because it would be giving up their protection, their reserve.

Mr. Huffman: For that reason there is no market.

Mr. Turner: Will Your Honor take into consideration that the evidence shows that this company buys leases, and

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[fol. 1628] there is no power yet contrived to make the so-called consumer pay those rentals in the hands of anybody

under any theory, except a utility? Now, Mr. Wittmer here has sold, this company has sold to other companies, and do you mean to try to tell us that the public is paying that delayed rental that he paid? Why certainly not, and if he pays $10 an acre for his No. 3 or $75 an acre for his No. 1 to this company, the public hasn't anything to do with the delayed rentals that he paid for himself. Now, it is true that if you go and take this company, and had never bought any leases, just went out and leased them to start with, then you would have to take into consideration the development of the company over the years, in addition to its pipe lines and gathering lines, and its ability to earn. You would have to take all these things into consideration, the expense over the years. For instance, I drove through Gary, Indiana, with an automobile some years ago in the early part of this century, and there wasn't any Gary, Indiana, so you could have bought that place for almost nothing, but try and do it now. Now it is true that the steel corporation bought that for a little bit of money, but they have put a lot of money into it in developing it. Now, in all businesses there is the discovery back of it that is recognized. If this company goes out and discovers gas it is entitled to a value that results from its prospecting. If they buy it from somebody else, that has developed the field, they pay the price and the evidence in this case shows that we bought a lot of property from people who have developed the gas lands.

Commissioner Geiger: Well, now Mr. Turner, if that be true, why not let the witness say it is the way he estimates 3142
[fol. 1629] it?

Mr. Turner: I think the witness has said——

By Commissioner Geiger:

Q. Do you regard the discovery, the fact that somebody has gone out and discovered that natural gas and has gotten it by lease from the owner, as adding a value to that land in the hands of the first lessee?

Mr. Turner: Objection.

Mr. Huffman: No, I want that answered.

Mr. Turner: My reason is this; as I have understood this witness while he has been cross-examined on lots of angles, he testified that the figures he has given here were the figures that he believed that a willing buyer would pay

to a willing seller; that has been the basis. He has been cross-examined as to everything back to Adam but that wasn't what he said he put his value on.

Commissioner Geiger: Can't the witness say—let him answer that question.

Mr. Turner: Note an exception.

By Commissioner Geiger:

Q. In giving the value of this property as you have, have you considered an element that attaches to it by reason of the fact that somebody has discovered that there was natural gas on it and they acquired the lease upon that land?

A. Yes, surely.

Q. To make an illustration, a person goes out and discovers a gold mine where gold was never mined, he is entitled to the profit of his fortunate discovery in getting the gold; the gold is worth a certain standard value. Now, in your judgment, the person who has discovered the fact or has acquired a leasehold upon land which others have dis-

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[fol. 1630] covered as gas land, adds to that value of that leasehold more than the sum of money that was necessary to acquire the leasehold?

A. Yes.

By Mr. Davies:

Q. And the public finances the cost of discovery; did you consider that; too?

A. Well, I didn't—I don't think I did, I don't know.

Q. Well, what——

Mr. Turner: Let him answer.

Mr. Davies: Well, I am asking him; I am giving him a chance.

Commissioner Geiger: Now, Mr. Turner, I tried to be fair in asking that question from him——

Mr. Turner: You did. I thought the question here was the question of a fair market value.

Mr. Davies: This man says he doesn't know of any such comparable acreage being offered——

Mr. Turner: That doesn't establish the question of whether there is a market.

Mr. Davies: That is where we differ, is all.

Commissioner Geiger: Well, Mr. Turner, just a minute. Is there anything in our statute which permits us to take the fair market value of leaseholds as fixing the value of the property used and useful? Now, that has been the stumbling block in my mind all the way through. It certainly isn't reasonable is it?

Mr. Turner: If Your Honor please, there is nothing in your statu-e that allows you to take property and confiscate this property——

Commissioner Geiger: Oh, well, we know it.

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[fol. 1631] Mr. Turner: I am trying to answer you. The Supreme Court hasn't answered that question of yours as I read the Logan case. If you pin me down to an answer, I say they recognize the market value, and they must recognize the market value to be in consonance with the Constitution of the Supreme Court of the United States.

Commissioner Geiger: The Supreme Court of the United States?

Mr. Turner: The Constitution of the United States; not the Supreme Court. No wonder in the heat of the day——

Commissioner Geiger: We will take a little recess.

(Thereupon a short recess was taken.)

Commissioner Geiger: Now, Mr. Turner, you were about to make a talk to the court when we recessed.

Mr. Turner: I got the Constitution and the Supreme Court all mixed up. I will let it go for the present.

Commissioner Geiger: The Supreme Court has had a lot to say about the Constitution, but they didn't write it.

Mr. Turner: I know what I was going to say to the Commission.

Commissioner Geiger: Go ahead and tell it.

Mr. Turner: I was trying to get over to the Commission the thought that I have in mind about this leasehold valuation subject. I recognize that this Commission is struggling for a method of proper valuation; I recognize the difficulty we have all had in understanding just what the court was saying in each of these Logan cases. I hope I will not be called up for contempt for saying that, but I do feel that there is a minimum beyond which the courts would not permit the Commission to go, and that is that

these leaseholds do have a valuation, if at all, as com-
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[fol. 1632] petitive fuel.

Now, Your Honor, Judge Geiger said if you couldn't sell the fuel for 10 cents, they wouldn't be worth anything. Of course not; we recognize that. But taking coal in this community, and having a competitive fuel for it. I say that when you say that we can't have a rate based upon the value of these properties valued for competitive fuel purposes, then you are taking our property. I know it is not an easy subject to get at, but I am trying the best I can here to develop some basis which will justify this Commission in recognizing that we have something. I know that we can sell it, and that has always been the acid test with me. Not whether a fellow is willing to sell, that isn't the test of the market. The test of the market to me is whether anybody is willing to buy. That is the acid test of market, and before we get through with this thing I am going to try to show you there are a lot of people willing to buy.

Mr. Huffman: Well, if Your Honor please, as far as the consideration of the valuation of these leaseholds is concerned, we mustn't forget the fact these are only term leaseholds. These are not perpetual or permanent or anything like that, and none of this acreage is held in fee, and the gas in the ground is still wild and it doesn't belong to anybody until it is captured and brought to the surface. Moreover, opposing counsel is inclined to base his figures on the claimed value of this acreage on something that we cannot help but regard as a mere fiction. When he refers to the valuation of these leasehold acreages as being based upon which this company has been compelled to sacrifice, upon the fact that this company in addition to the acre-
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[fol. 1633] age which it itself has gone out and acquired and paid only the man who went out and solicited the acreage, perhaps a notary public who did the notarizing of the instrument, that in addition to that there is an amount which has been paid by this company for this acreage in acquiring it, and that the company should have a right to place that in a rate base here for the purpose of earning to the company. Now, this witness hasn't testified that this company has paid anything like that, or that this company has been compelled to undergo any sacrifices. He

comes in here and places an arbitrary valuation on this leasehold acreage which he says—and we mustn't forget that this witness is interested in leasing acreage and selling it and that his company is interested in selling gas to the Ohio Fuel Company, and that the more his company can help the Ohio Fuel get for its gas, the higher the wholesale price which it can get for its gas which it is selling to the Ohio Fuel; then we are going into the vicious circle, as I have been contending all through; and so when this witness comes here and places a valuation of $75 per acre or $74.90 as the company makes it in their exhibit on leaseholds No. 1 and $75 an acre on No. 2, he is placing a valuation there which has no relation at all to what this company has paid for this acreage.

Mr. Turner: What has that to do with it?

Mr. Huffman: And there is no connection between the two, and the very fact that this company now comes here and seeks to load this into the rate base on a fictitious basis is something which we think we should call to the attention of the Commission in reply to the statements Mr. Turner has just made.

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[fol. 1634] Commissioner Geiger: Well, we have two arguments. Let us go ahead.

Mr. Turner: The only thing I want to get over to the Commission is that I never at any time claimed that what the company paid for anything has anything to do with its value. Never in my life have I ever contended for that before a court. A man may get it for nothing and it is worth something; he may pay too much and it isn't worth what he paid. The question is what it is worth in the market.

Mr. Davies: I was going to say something but it has been indicated that two speeches is enough.

By Mr. Davies:

Q. Just one more question, Mr. Wittmer, with reference to valuation. Was there submitted to you the contract between The Ohio Fuel Gas Company and the Preston Oil Company with reference to the oil and gas operation of this acreage that is submitted to you, that is under consideration here?

A. There was not.

Q. You have been confining your testimony entirely to this acreage for gas purposes, I assume; is that right?

A. Yes.

Q. You, of course, noticed the leases for this acreage is for gas and oil?

A. Yes.

Q. But you have only considered it for gas purposes?

Q. Yes.

Q. Would it make any difference in your valuation if you were to consider that in the contract between the two companies that were referred to, The Ohio Fuel Supply Company, is to turn over to the Preston Oil Company all oil wells drilled on that acreage upon the payment of the cost

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[fol. 1635] of drilling the given well plus the delayed rentals that it may have paid in connection therewith and——

Commissioner Geiger: That is enough.

The Witness: It would not.

Q. That would make no difference?

A. No.

Q. It would make no difference with a prospective purchaser if he had to pay all the delayed rentals on all the acreage and then have to turn over an oil well if he struck it and be paid back simply what was involved in the well itself?

A. And the delayed rentals, I believe you said.

Q. Yes, the cost of the delayed rental on that particular acreage?

A. No, I think not.

Mr. Davies: That is all.

[fol. 1636] Redirect examination.

By Mr. Turner:

Q. Do I understand you in answer to Mr. Davies to say that the prices given here on page 19 of this Exhibit 44 were what you believed that a willing purchaser would pay to a willing seller on or about the 30th day of June, 1929, for these gas land leases?

A. They are.

Q. Now, you have been asked about sales in Ohio. I wish you would tell the Commission any sales that you know that were made in 1929 in the state of Ohio?

A. In 1929 we sold to the Penn-Ohio Gas Company about 101,600 acres for $1,200,000, and included wells and leases located in Jackson, Lawrence, Carroll, Stark, Guernsey, Monroe, Morgan, Summit, Licking, Noble and Gallia counties. This property included 4,000 acres of No. 1 classifica-

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[fol. 1637] tion, about 4,600 acres of No. 2; 93,000 acres of No. 3. The prices that we used at that time——

Mr. Davies: We object, if the Court please to that.

Mr. Turner: Well, we want to know what they got for it. That is the price they used in making their valuation.

Q. Go ahead.

A. $150——

Mr. Davies: I want a ruling on that objection.

Commissioner Geiger: He is giving the price for which the sale was made?

Mr. Davis: Prices that he used.

Mr. Turner: Prices they got for it.

Commissioner Geiger: Never mind about what prices you used. What did you get from the Penn-Ohio Gas Company?

Mr. Turner: He has told you $1,200,000, and now break it down.

The Witness: $1,200,000. We based our estimate or whatever way you might want to take it, $150 per acre for No. 1——

Mr. Davis: We object again.

The Witness: $20 per acre for No. 2——

Commissioner Geiger: Wait a minute.

Mr. Huffman: This isn't shown to be comparable acreage.

The Witness: And $3.00 per acre for No. 3.

Q. Now, did you buy any acreage in the state of Ohio during the year 1929?

A. We bought 7,000 acres in Muskingum County, Ohio, for $100,000.

Mr. Davies: We object to that as not being comparable in acreage.

The Witness: It is practically——

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[fol. 1638] Mr. Turner: Wait a minute; let the Commission rule.

Commissioner Geiger: When you make a statement of how much you bought for certain dollars an acre, said the average price of so much per acre.

Mr. Davis: My objection would be just the same if the Commission please.

Commissioner Geiger: I know; your objection is he hasn't compared the acreage he bought in Muskingum County with other acreage which he has testified to in this case; is that correct? You may cross-examine on that.

The Witness: The territory is practically undeveloped excepting 50 acres.

By Commissioner Geiger:

Q. How much is that per acre?

A. About $15.00 per acre.

Q. From whom did you buy that?

A. From the—I will tell you in a moment; rather an odd name in Zanesville.

By Mr. Hoffman:

Q. Atha?

A. No.

Mr. Turner: We will ask about your client in a minute.

By Mr. Huffman:

Q. Swingle?

A. No. It is a name that was made of three different individual names. I can't recall the name right now.

By Commissioner Bricker:

Q. It was all bought from the same party?

A. One party, yes.

By Mr. Turner:

Q. Ed Miller, a lawyer and that bunch?

A. Yes. What was that name?

A Voice: Locum?

The Witness: What is the name of the firm? They had a trade name for it.

A Voice: Well, I don't know.

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[fol. 1639]. The Witness: Well, that was the crowd.

By Mr. Turner:

Q. Well now, speaking of William Hunter Atha; have you any deals on at the present time with William Hunter Atha for gas lands in Muskingum County?

Mr. Davies: We object. My objection now is to the point that we are seeking to fix the price of the acreage as of June 30th, 1929, I assume.

Mr. Turner: No, I am also showing there is a market for leaseholds in the state of Ohio, and that they are bought and sold.

Mr. Davies: When?

Mr. Turner: Now; any time.

Commissioner Geiger: Mr. Turner, would you say if we were trying a law suit you could testify as to deals that you had, not consummated at the time the witness was testifying, in order to enable him to fix the value of a sale that was made long prior?

Mr. Turner: No; but to show that there is a market.

Commissioner Bricker: I think it is competent to state here that there is a deal under way; but as to the prices offered or asked, I don't think it would be competent.

Mr. Turner: Well, I will state that in the record and save my exception.

By Mr. Turner:

Q. You may state whether or not there is a deal pending with William Hunter Atha?

A. There is not.

Q. There is not?

A. No.

Commissioner Bricker: Just one question on that Pennsylvania-Ohio deal——

Mr. Turner: I will get you yet.

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[fol. 1640] Commissioner Bricker: In the Penn-Ohio deal where you bought 4000 acres of class No. 1——

Mr. Turner: Sold.

By Commissioner Bricker:

Q. Or sold rather; how many wells were there on the class No. 1?

A. I can't tell you.

Q. None on class No. 2?

A. No.

Q. It was approximately the same classification upon which you based your appraisement in this case?

A. It is.

Q. Could you get me the number of wells on that No. 1 classification?

A. I could.

Q. I would like to have that if I can.

Mr. Turner: He can mail it over to me and turn it in?

Commissioner Bricker: Yes.

By Commissioner Geiger:

Q. You sold the leaseholds with the improvement then on them?

A. Yes.

Q. And you took into consideration when you sold them how much money you had put in the holes that were in the ground?

A. Yes.

Q. Now, were there any pipe lines on the service connecting your wells with any place?

A. I think not.

Q. Any gathering stations?

A. I think not.

Q. Compressors?

A. There was not.

Q. There were just holes in the ground with no connecting pipes for the gathering of gas?

A. The gathering lines were laid by the buyer.

Q. Well, there was nothing on there when you sold it to them except the wells?

A. That was all.

Q. And the wells cost you an average of how much?
A. $10,000 apiece.

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[fol. 1641] Q. That was a part of the property you sold?
A. Yes.
Q. The property was the developed wells, and wasn't the leaseholds?
A. There were leaseholds of 1, 2 and 3 classification.
Q. On No. 1 there were drilled wells?
A. Yes.
Q. On which you had expended money and which you were selling at that time?
A. That is right.
Q. No. 2, there were experimental wells?
A. No wells.
Q. And No. 3 no wells?
A. No wells.

By Mr. Turner:

Q. Now, in answer to Judge Geiger you have said there were a number of wells which you sold. Now, did you get a price in addition to the $150 an acre for any wells, or did the $150 an acre include the wells?
A. It did not include the wells.

Commissioner Geiger: Well, wait a minute.
Mr. Turner: I have broken you down there on that, I am afraid.
Commissioner Geiger: I know; but how much did you get for the wells?
The Witness: $115,000.

Q. That is you get what was put into the wells in addition to $150 an acre?
A. Yes.

Commissioner Geiger: All right.

By Mr. Turner:

Q. How about Vinton County; do you know of any sales in Vinton County in the past few years?
A. In 1930 we bought 5300 acres with three gas wells. We paid $16,000.

Q. Was that in developed or undeveloped territory?
A. Practically undeveloped.

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[fol. 1642] By Commissioner Geiger:

Q. What was that an acre; give the value per acre.
A. About $30.
Q. How many acres?
A. 5300.

Mr. Turner: With three wells.

By Mr. Turner:

Q. What is the fact as to whether or not a large tract of gas lands is worth more per acre than a smaller tract of gas land? Answer and amplify your answer to suit yourself and explain that — the Commission.

A. A large area of Leaseholds would be looked upon with very much more favor than a small tract, because it would carry with it possibilities in the way of supplying needed markets, continued development work that would be carried on.

Q. Could the Ohio Fuel Gas Company in the reproduction of its property be financed without having in addition to the No. 1 leaseholds the No. 2, 3 and 4?

Mr. Huffman: We object to that question. I don't think the witness is qualified for it.

Q. How many years have you been in the business?
A. Since 1895.

Commissioner Geiger: Well, he hasn't testified he was in that sort of business.

Mr. Turner: All right; if you will let me, I will qualify him.

Q. Have you ever financed any gas developments?
A. Yes, we have.
Q. How many?
A. A great many, up to five, $600,000.
Q. Are you familiar with the methods of financing of gas properties?
A. Generally, yes.
Q. Are you able to state whether or not the No. 2, 3, and

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[fol. 1643] 4 leaseholds are essential to the business of the Ohio Fuel Gas Company?

A. Absolutely, yes.

Q. Are you able to state from your experience in the gas business, and I understand you have said you have been in the utility business as well, whether or not the No. 2, 3, or 4 or either of them are necessarily used and useful in the supplying of gas by such a company as the Ohio Fuel Gas Company.

Mr. Huffman: We object to that. Your Honor, it is apparent that what the counsel is attempting to place in the record here — something that he didn't put in the record by calling this witness in chief, and that in attempting to develop this very line of testimony that he is showing that he was not bona fide when he said some weeks ago here that he had rested his case. Now, after all of these weeks these witnesses come in and he begins to develop a new line of questioning to bring new evidence in to this Commission, and we protest against it, and we wish to call the Commission's attention to the fact that it certainly proves conclusively that he had not rested his case here some weeks ago, and that he is still putting in his case in chief.

Mr. Turner: Do I have to answer that sort of a question?

Commissioner Geiger: The question would be whether you, by cross-examination of this witness, invited this line of testimony from him.

Mr. Huffman: Well I don't think I did. This line of questioning goes away wide of anything that we have shot at. It brings in a new feature.

Commissioner Geiger: The objection is overruled and ex-

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[fol. 1644] ceptions noted.

Mh. Huffman: Note our exception.

(Question read.)

A. They are very necessary.

Q. Do you know the Benedum-Trees Oil Company?

A. I do.

Q. Is it a responsible concern?

A. Of the very best, of the highest standing.

Q. Could you have sold these gas lands Numbered 1, 2, 3 and 4 as of June 30th, 1929?

Mr. Huffman: We object to that. He couldn't sell something that a company wouldn't sell. This witness and others have testified that they know this property was not for sale and couldn't be sold, so that any offer that any company might make or say that it had or could get would only be a fiction; it would be impossible for them to bring a bona fide offer in here, or show what a company would do. If I couldn't sell it it don't matter what price I am offered.

Commissioner Geiger: Well, read that question. It seems to me Mr. Turner it is rather——

Mr. Turner: Your Honor, there isn't the slightest doubt about the competency of the question.

Commissioner Geiger: Well, I think it is a very peculiar sort of a question myself.

Mr. Turner: All right, I will take the ruling on it.

Commissioner Geiger: Well, read the question.

(Question read.)

Commissioner Geiger: Well now, Mr. Turner, that seems to be utterly inconsequential. Of course, you could have sold it to somebody. I could have bought it myself. It is a question of what price you would have to have.

3157

[fol. 1645] Mr. Turner: We are talking about a market now.

Commissioner Geiger: Well, that don't mean a market. You could have sold. You could have sold anything.

Mr. Turner: Do I understand the objection is sustained?

Commissioner Geiger: Overruled, or sustained.

Mr. Turner: Note an exception. We expect the witness, if permitted to answer, to say yes.

Commissioner Geiger: The ruling of the Commission is based upon the fact that among other things that the question might be addressed as to whether——

Mr. Turner: You are as bad as I am.

Commissioner Geiger: Let it go.

Mr. Turner: I want you to get it in the record, because the further you go the worse you will get.

Commissioner Bricker: Overruled on Constitutional grounds.

Mr. Turner: All right; that is safe. If the court decides a case and don't give any reasons, he is lots safer.

Commissioner Geiger: Go ahead.

Mr. Turner: Well, I am through. I have taken about 20 minutes.

Recross-examination.

By Mr. Davies:

Q. Necessarily, Mr. Wittmer, where you have such a large acreage the number of possible buyers so-called is necessarily reduced, is it not?

A. Yes, but it is all the more attractive.

Mr. Turner: Open wide the gates.

3158

[fol. 1646] Q. But there would necessarily be fewer interested in it, that could be interested in it?

A. I presume so.

Q. And such a purchaser would expect to make a profit out of this purchase, would he?

A. Yes.

Q. And where would he make that profit; what would be the source of his profit?

A. If he operates the property, in the sale of gas.

Q. He would have to get a rate commensurate with the price that he had paid, wouldn't he?

A. He would——.

Q. If he was going to make a profit?

A. He would probably have that all figured out before he bought the property.

Q. Well, didn't he figure that out?

A. Oh, yes.

Q. That he would have to get a rate proportionate to what he paid for it?

A. Yes.

Q. Where would you draw the line as the amount of acreage that the Ohio Fuel Supply Company would necessarily have to have to operate its business?

A. I can't say. All companies carry reserves in two, 3 and 4 for certain purposes. Some companies would carry very much more than others. I can't answer that.

Q. But it is convenient for you to say that at least the amount that is involved here would be necessary?

A. I would say that when we were a utility that we had a greater proportion of untested acreage. I don't believe that I have the figures with me, but we carried a very large reserve of 2, 3 and 4 over No. 1.

Q. In Ohio?

A. Pennsylvania.

Q. Oh, in Pennsylvania?

A. Yes.

Q. But none in Ohio?

A. No; we were not a utility in Ohio.

3159

[fol. 1647] Q. How much of a gas reserve would the Ohio Fuel Supply Company have to have in order to conduct its business?

A. I wouldn't like to be qualified to answer that.

Q. You wouldn't like to answer that question?

A. Not without giving it some study and thought.

Q. You don't feel that you are qualified with the investigation you have made to date to answer that question?

A. Well, it would depend largely upon the amount of domestic market and the amount of industrial market, and the ratio. Industrial market is practically continuous; domestic market is fluctuating.

Q. Continuous up to a certain point, is it not?

A. Well, I don't know; I just don't know what you——

Q. Well, isn't the domestic market on quite a uniform level up to a certain point throughout the year?

A. No.

Q. Does it ever go beyond the summer minimum?

A. No, but it goes down invariably in the summer and it goes up invariably in the winter. That curve is a very crooked or marked curve.

Q. It is always——

A. And the utility, if they are supplying both a utility market and an industrial market to regulate or try to even up, you are having a continuous industrial market to take care of the non-uniform domestic market.

Q. Do you think that the industrial market does do that?

A. Absolutely; no question about it.

Q. And isn't there, as I said a moment ago, as I suggested a moment ago, isn't there a minimum that is continuous even in the domestic?

A. Yes.

3160

[fol. 1648] Q. Yes; than it goes higher, of course, from time to time?

A. And it is very hard to supply the excessive gas during the cold period.

Q. Yes. Well, you have peak loads, of course; I understand that?

A. Yes.

By Commissioner Geiger:

Q. Well, is the fluctuation in the domestic market even worse than the fluctuation in the industrial market due to the depression in business activities? You had in 1929 a very high industrial market; in 1931 you are not doing much in the industrial markets are you?

A. Not very much.

Q. And there has been a great fluctuation in the industrial market; except that it is not seasonal according to the seasons of the year as in the domestic market, but it is season- according to the conditions of business in the country and now at a very low ebb; is that so?

A. It is. The industrial market, however, doesn't fluctuate probably more than 50 per cent; the domestic market between high and low, winter and summer fluctuates five and ten times.

Commissioner Geiger: Well, I don't think we need go any further into that.

By Mr. Davies:

Q. How much of an available supply would the Ohio Fuel Gas Company have to have and for how many years would it have to have it in order that it might finance itself?

A. I don't know.

Q. Then why do you say that the company would have to have all of this 2, 3 and 4 acreage, leasehold acreage, if you don't know, if you can't answer the question I asked you.

A. Experience has taught us that. Every gas company

3161

[fol. 1649] is carrying about the same amount of reserve.

Q. Well, does your experience help you to answer the question that I suggested?

A. I can't tell you exactly how many years or what the return would be on these other——

Q. You are putting it on the basis that other companies always have number 1, 2 and 3 in about these proportions, and that is the reason you answer that way?

A. Yes.

Q. Now, did you consider in answering your question to Mr. Turner, that the Ohio Fuel Gas Company gets quite a quantity of its gas from West Virginia?

A. I considered that, yes.

Q. And that it buys quite a quantity of gas?

A. Yes.

Q. Do you know what per cent. of its gas it gets from West Virginia?

A. I do not.

Q. Do you know what per cent. it buys from independent buyers in Ohio?

A. I do not.

Q. You figure that that would have no bearing on the amount of the reserves that the Ohio Fuel Gas Company would have to have in order to finance itself?

A. It might, depending upon just what the terms of that contract might be.

Q. It would reflect on it, wouldn't it?

A. It might, yes. If that contract is just like its own supply in the State of Ohio, it wouldn't have any bearing whatever.

Mr. Davies: That is all.

By Commissioner Geiger:

Q. Just a minute; I have one or two questions I would like to address to you. You have testified generally that No. 1 was appraised by you at $75 per acre, No. 2 at $75 per acre, No. 3 at $10 per acre, and No. 4 at $3.00 per acre; is that correct?

A. That is correct.

3162

[fol. 1650] Q. Observing the map and the marking upon the map I would gather that that acreage is scattered from the north part of the state of Ohio to the river on the

south, approximately 260 miles, and that judging roughly from the map it would be a strip that is substantially or on an average 50 miles wide or maybe a little less than that; is that correct?

A. That is correct.

Q. Now, naturally we might suppose that the oil or gas situation in various parts of that district which is quite extensive might be different both as to the character of the sand and its depth to which the well might be dug, and rock pressure, and many other things would it not?

A. It would.

Q. And isn't it, as a matter of fact, different?

A. Yes.

Q. Between the northern part until you get down to the southern?

A. That is true.

Q. And in various portions of it?

A. Yes, sir.

Q. Now, just what did you do to arrive at an average of $75 per acre over that widely distributed acreage; did you take into consideration that in one locality the property might be worth more per acre and another less per acre, and that that was your average?

A. That is correct.

Q. Did you, as a matter of fact, average it up in figures?

A. I did not.

Q. Or did you just take a broad guess at it?

A. I took a broad view of it.

Q. Well, you just made a guess that the whole thing, lumped together, from lake to river, would be about $75 per acre?

A. Your Honor, I don't know just how broad the term

3163

[fol. 1651] guess might be; but it is a price that I think is there. I wouldn't say that it is a price the way I would go out here and say that building was worth something.

Q. Well, we will substitute the word estimate.

A. Yes; that is very reasonable.

Q. Now, did you estimate the price in the northern part of the state per acre was different from that in the central or southern portions of the state?

A. No.

Q. You think it is all about the same price?

A. The price of some acreage in the north—the value of some acreage in the north is much higher than it is on other acreage in the north. There are certain localities where values are much higher than they are in others. In Muskingum County I would say the values are less per acre, and in Jackson County, away to the south, the values are higher, again, it all depends. That broad ribbon of acre from the north to the south through the State of Ohio nearly 50 miles wide is a Clinton sand area, and anywhere within that area there are wonderful possibilities, and there will be a lot of dry holes.

—. Well, so the idea that you wished to leave with us was that you considered that broad band from the lake to the river, and the various fields within that, the various townships that are marked in your color on the map, and came to the conclusion that the average value of the acreage irrespective of where it may be located, but the average value of all of it was $75 per acre for No. 1 and $75 per acre for No. 2, $10 per acre for No. 3 and $3.00 per acre for No. 4?

A. That is right.

Q. Now, just in a word or two could you tell us whether

3164

[fol. 1652] or not you really sat down and figured the number of acres in any given territory and considered the value of that particular territory with its rock pressure, ability to produce gas, and found out how much of that sort of territory there was and averaged it up in some way, or did you just say, "well, generally it is worth $75 per acre"?

A. In any portion of that broad band there are still original pools of gas. Some of the old fields or pools, rather—there have been several terms applied—have been depleted as much as 50, 60 or 70 per cent., 25 per cent.; and yet within a very short distance of those very much depleted pools, there are pools that have not been touched.

Q. All right, we understand that.

A. For that reason I would say that I should put a price—I put those prices on that acreage looking at it in a broad way, taking the good with the bad.

Q. Well now, the land that you have colored upon this map, is that under lease to this company?

A. It is my understanding all that——

Q. Now, in between there are a large number of townships and a large piece of territory that are not colored. Do you know whether or not those are or are not gas producing lands; are they held by some other company?

A. By some other companies.

Q. So that the block, if it were filled in with all producing lands, would be colored solidly all the way down?

A. That is correct.

Q. Now, I note that the major portion of this, especially that that runs up into Geauga and Ashtabula County and

3165

[fol. 1653] Trumbull is all of No. 4; there is no No. 1 nor No. 2 nor No. 3, and the major portion of that, through the central portion of the state, is of No. 4, too, and no Number 1, 2 or 3; and further we observe that the amount that is classed No. 1 is pretty small in comparison to that which is of either of the other classification-, especially class No. 4. Now, has that been colored on the map as yellow and Class No. 4, and broadly wildcat land, not developed into producing territory on any points in connection with your map which you so heavily colored in yellow; was there no gas wells or producing territory discovered in that yellow territory?

A. Not very much until recently. Since June, 1929, there has been some development work going on.

Q. Well, has the experience with that land which you designate as No. 4 been such during the course of several past years that you might be able to say that it is wildcat land and will continue to be such, and that it is really not gas lands?

A. Some of it will likely prove to be barren, but some of it will prove to be good.

Q. There didn't seem to have been much development in the major portion of your yellow colored map that produced any red which is acreage No. 1.

A. Competition probably more than anything else has brought about the development in the areas where you see the different colors, and less competition up above.

Q. Now, just what is your company; is it a drilling company or a transportation company or a selling company or a brokerage company?

A. A producing company.

Q. A producing company. Now, do you transport gas, 3166

[fol. 1654] transmit gas?

A. Not at this time.

Q. And do you sell it as a public utility?

A. No.

Q. You sell it to pipe lines?

A. Yes.

Q. And you do sell it to this company that we have now under investigation?

A. One of the companies that we sell to.

Q. And do you sell it to another company?

A. East Ohio Gas Company.

Q. You have two companies?

A. We also have the West Virginia.

Q. Now then, what price do you sell the gas that you produce off of your own property to these transportation and distributing companies?

A. I think the price that we are receiving is 18 cents per thousand cubic feet.

Q. Where is that delivered, at their pipe line or the mouth of your well?

A. At the mouth of the well.

Q. Do they have to put in the connecting pipe?

A. They do; not always, but nearly always.

Q. You find it profitable to develop and drill for gas and sell it for 18 cents a thousand cubic feet?

A. Well, we are getting along.

Q. Yes, you are getting along; you are not losing any money on 18 cents.

By Mr. Turner:

Q. Following Judge Geiger's question

Commissioner Geiger: Wait a minute.

Mr. Turner: I thought you were through.

Q. No, just one more. Can you say whether or not in the territory in Ohio under discussion 18 cents a thousand cubic feet at the mouth of the well is a fair price, consid- 3167

[fol. 1655] ering the cost of producing the gas and the cost of the leasehold and the number of dry wells and even other

contingencies that affect the development of gas, would you say that 18 cents is a fair price for that gas?

A. I would, yes, sir, Your Honor.

Q. And, of course, it is needless to ask, you make a profit on selling it at 18 cents, or you wouldn't continue to do it. We would guess that you could produce it at the mouth of your several wells at not over 12½ cents?

Mr. Turner: Will you allow us 13?

Commissioner Geiger: Well 13¼.

The Witness: I don't know.

Q. I don't want to pry into your business; you needn't to answer the question if you don't want to; do you make an average at the present of 5 cents a thousand cubic feet for the gas that you develop and drill for, produce and sell?

A. We haven't in recent years, positively not.

Q. Would you care to say what is your profit, net profit per thousand cubic feet for the gas you sell at 18 cents?

A. I would be glad to if I knew, but I don't.

Q. Well, you know you are making money?

A. We are making money, but we are putting a lot back into the business, drilling more holes and all that.

Q. Well now, have you any idea on this point, which is a very interesting one to me; as to whether or not you can say what is the fair value of natural gas in the ground before it is disturbed or drilled for. Is there any such value? Someone has estimated it is 2¼ cents.

A. I don't know.

Q. Per thousand cubic feet; but you do know generally that 18 cents at the mouth of the well throughout this

3168

[fol. 1656] territory produces a net profit?

A. I think it does, Your Honor.

Commissioner Geiger: All right.

Mr. Turner: Are you through now?

Commissioner Geiger: I think so for the present.

By Mr. Turner:

Q. You have no obligation to continue supplying gas when the gas is out of those wells, have you?

A. No obligation whatever.

Q. You have no pipe lines to maintain or write off, have you?

A. None whatever.

Q. How would you like to supply gas to the city of Columbus for 48 cents?

A. We wouldn't entertain a proposition at all.

Q. Would you rather supply gas in the field at 18 cents or to domestic customers in Columbus at 60 cents; which would be the more profitable?

A. Gas in the field at 18 cents.

Mr. Turner: Thank you for drawing it out, gentlemen.

Mr. Huffman: We feel we are being insulted.

Mr. Turner: It is the truth that hurts.

By Mr. Davies:

Q. Have you ever figured it up to know that you couldn't make any money at 60 cents?

A. We were selling gas at 55 cents and we were losing money, up to 1925.

Q. In Ohio?

A. In Pennsylvania.

Q. Oh, in Pennsylvania?

A. Yes.

Q. But have you figured out your problem in Ohio to Columbus?

A. No, I haven't.

Q. You have not?

A. I have not.

Q. No.

A. I hope nobody will offer the——

Q. What is the fact as to whether your drilling and development cost is about the same as it is with other companies

3169

[fol. 1657] in Ohio?

A. I presume it is the same. We contract all our work, and I think that most of the companies do that. Our lease terms are usually identical with the other companies; many other companies.

By Commissioner Geiger:

Q. Is it usual or customary for a gas company to buy anything more than the lease that he is able to make of the land owner, that is by leases from brokers in leases?

A. Yes.

Q. People who go around and make contracts with the owner?

A. Land owner.

Q. And then they sell to the gas companies, is that right?

A. That is right.

Q. And then the gas companies sell those leases among themselves?

A. No, no, they operate them as a rule.

Q. Well, sometimes they sell out to somebody else?

A. Oh, yes.

Q. You have sold them to somebody else?

A. Yes, we have bought and sold.

Q. And you have bought, and you operate?

A. Yes.

Commissioner Geiger: All right.

By Mr. Turner:

Q. You have bought and sold about how many acres, can you give me the approximate amount of that?

Mr. Davies: In Ohio you mean?

Q. No, altogether?

A. I can't tell you without checking.

Q. I have figured here in '29 220,800 acres; is that correct?

Mr. Huffman: Oh, we want them located.

Mr. Turner: I am showing whether he has had any experience.

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[fol. 1658] The Witness: Yes, that is correct.

By Mr. Davies:

Q. How much acreage in Ohio have you bought and sold?

Mr. Turner: Check it up there.

The Witness: 60,000 acres to the Philadelphia Company: 101,000 acres in the Penn-Ohio; 7,000 in Muskingum, 5,300 in Vinton; 173,300.

Q. And these were independent sales at different times?

A. Yes.

Q. And I think I asked you this morning how much acreage you had in Ohio?

A. I believe you did.
Q. You hold the leaseholds on that acreage?
A. We do.
Q. And you pay the delayed rentals on that acreage and on those leaseholds?
A. Oh, yes.

By Mr. Turner:

Q. I am sure the public don't pay them. And you pay the royalties on the wells that you drill?
A. We do.
Q. And you pay for the dry holes?
A. We do.

By Commissioner Geiger:

Q. Let me ask you another question. And doing all of that you are able to make a profit by selling gas at 18 cents a thousand cubic feet?
A. I think we are making a profit, yes.

By Mr. Turner:

Q. But now all that doesn't include having much reserve acreage, does it, or carrying it for a number of years?
A. No.
Q. You are under no obligation——
A. Oh, no; no, we don't pretend to carry reserves as we used to carry when we were a utility.
Q. Yes.
A. And when we had a fixed market to supply. Now,

3171

[fol. 1659] our market is governed by what we have.
Q. And you only have to supply what you have?
A. What we have. It doesn't make any difference how much or how little that is.

By Commissioner Geiger:

Q. Well now, just a question more and then I will cease. You speak of 18 cents per thousand cubic feet. There was some testimony earlier in this case that a good many independent dealers have sold their gas to the connecting companies at 15 cents. Do you know whether or not 15 cents

in this territory is a fair price for the independent producer who seeks to sell it to somebody who takes it away?

A. No, I don't think it is a fair price. I think it is too low.

Q. Well, do you know whether or not it is the price at which some gas is being sold?

A. I do not.

Q. You don't know?

A. I don't know.

Mr. Turner: We have some contracts of that sort. Your Honor. It is a question of contracting, you know, from over the years.

By Mr. Davies:

Q. So Mr. Wittmer, you do not find that it is necessary for you to carry very much reserve in order to keep your business going, do you?

A. Not in the way we are conducting it at this time.

Q. No. You would, if you were afraid of losing the value of your property, wouldn't you, and your investment?

A. We carry enough of you might classify it No. 2 for reasonable protection, but we go no further than that.

Q. You haven't found it necessary to go any further than you have indicated in your testimony in this case in

3172

[fol. 1660] order to protect your business and keep it going?

A. No.

By Commissioner Geiger:

Q. Did you, Mr. Wittmer, prior to the sale of that 7,000 acres in Muskingum County sell the gas that came from it to the manufacturers of Zanesville?

A. No, we didn't; never did.

Q. You never sold gas from those acres?

A. We never sold any directly to any consumer. We always sold to the pipe line.

By Commissioner Bricker:

Q. I note on this map there is some development in Ottawa County in Class 1 acreage, a small development in

Hardin County; there is some reserve in Hardin County also. Do you know anything personally about the development in those small fields?

A. I do not.

Q. Do you know anything about the development of this or any other company in the east of the strip across the state which is held by the Ohio Fuel Gas?

A. Generally speaking, the drilling is that area east of that belt or ribbon has been disappointing or unsuccessful; that is the development in Columbiana, Carroll, Harrison, Belmont and Jefferson Counties and those contiguous has not been as profitable as through the belt held by the Ohio Fuel Gas. I might modify that earlier statement. The country that you are speaking of east of that belt is shallow producing country generally; that is you find production in shallower sands. That big broad strip running up and down through the state we speak of as the Clinton sand area, the deep sand.

Q. What company is developing largely in the counties adjacent to the ones I mentioned?

A. Well, I don't know.

Q. Do you know whether or not the East Ohio has any

3173

[fol. 1661] of that territory?

A. I know they have it under lease. I don't know whether they are operating or not, but they have a lot of land under lease.

Q. Do you know whether or not there is any possibility of any development in other sands or in other territory than that which is now being operated by the Ohio Fuel Gas?

A. No, I don't think so.

By Commissioner Geiger:

Q. Do you know whether or not any wells that have given out in years past, are upon being drilled deeper or another well nearby, have those territories produced new gas from deeper levels?

A. Yes.

Q. Now, what levels are being now used in these fields to which you refer, the shallow level or the deep level?

A. We are speaking of that broad belt?

Q. Yes.

A. That is all Clinton; practically all Clinton.

Q. That is deep?
A. That is deep.
Q. As far as you gas men know, there is nothing below the Clinton in this territory?
A. I believe not.
Q. The Berea is above that?
A. The Berea is above it.

Commissioner Geiger: What is you pleasure, gentlemen?
Mr. Huffman: Let us adjourn at this time, Your Honor.
Commissioner Geiger: Are you through with him so he can go home?
Mr. Huffman: Yes.
Commissioner Geiger: Ten o'clock tomorrow morning.

By Mr. Turner:

Q. There is one question I would like to ask this witness before he goes home. I want to ask you whether or not the Ohio Fuel Gas Company controls all of the gas territory in this belt across the state here as indicated on this map,
3174
[fol. 1662] or whether there is any competition there with them?
A. It is competitive. So far as I know it is entirely open; many different companies, individuals and companies are operating through that territory.
Q. I want to develop whether or not the Ohio Fuel Gas Company has a monopoly of the gas in that territory?
A. Oh, no.

By Mr. Davies:

Q. Is there any other big gas company in that territory that Mr. Turner has just directed your attention to?
A. The East Ohio.
Q. In what portion?
A. In the northern portion principally.
Q. Principally in the northern portion?
A. Yes.
Q. And not in the middle or southern portion?
A. Well, they got pretty far south. I can't tell you how far.

Q. That is your impression?
A. Yes.
Q. But they are over in the east edge of this territory, are they not, rather than in the central and the west side?
A. Yes, in the east and in the north. They control the Cleveland area.
Q. They are on the east and north?
A. Yes.

3179

[fol. 1663] Samuel W. Meals further testified on cross-examination:

Q. Do you remember about when you began your study of this valuation?

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[fol. 1664] A. It was about a year ago; something near a year ago when the data was brought over to my office.
Q. Similar to what you see on the table to your right?
A. Yes, sir; I have been going over it off and on since that time.
Q. Do you think that would probably in June of last year?
A. I think around May or June of last year, in the neighborhood of that time.
Q. And do you recall when you made your report?
A. I think January of this year.
Q. And in what form did you make your report?
A. In a letter.
Q. In a letter?
A. Yes, sir.
Q. You made your appraisal, Mr. Meals, by classifications 1, 2, 3 and 4, did you?
A. I studied their classifications as they had set them up, but in my letter I used the No. 1 and No. 2, and then the No. 3 and the No. 4 together.

Commissioner Geiger: How is that; you had No. 1 and 2 and then 2, 3 and 4 together?
The Witness: No, sir, 3 and 4.
Commissioner Geiger: You had three classifications?
The Witness: No, two classifications, No. 1 and No. 2 as one and No. 4 and No. 3.
Commissioner Geiger: I see.

By Mr. Davies:

Q. How did you get that classification; did you make it yourself; that is, as to 1, 2, 3 and 4, or was it submitted to you?

A. That is the way the data was submitted to me, as No. 1, and that, as I understand, is—and from the maps, it shows that that is the developed acreage, and the No. 2 is what they call the proven acreage, and from the study

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[fol. 1665] that I made of their maps of the acreage it looked to me to be well selected as a proven acreage; therefore I took the two and put a valuation on No. 1 and No. 2.

Q. And the number of acres in these various classes was furnished to you; the number of acres in Classes 1, 2, 3 and 4 was furnished to you?

A. Yes, sir.

Q. And you accepted the acreage, that acreage, for the various classes?

A. I did.

Q. Except that you added, as I understand you, you added 1 and 2 together?

A. Yes, sir.

Q. But you did not change the number of acres?

A. No, sir, I did not. I went over the maps very carefully though showing the territory that they had drilled; knowing the wells, the location of the territory, as well as the dry holes that they had shown on their maps on that developed acreage and the wells that had been drilled on adjoining territory.

Q. Was there any difference between the No. 1 and the No. 2 to be noted?

A. Well——

Q. From the standpoint of classification?

Commissioner Geiger: Do you mean the original No. 1 and No. 2 or his No. 1 and No. 2?

Mr. Davies: The original No. 1 and No. 2.

The Witness: The original No 1 possibly is as good as No. 2 but in finding a buyer for the No. 1 it would be hard to do that unless he could also secure the No. 2.

Q. Well, am I right in understanding that on No. 1 we have operating wells, producing wells?

A. Yes.

Q. Generally speaking?

3182

[fol. 1666] A. Yes, sir; the No. 1 has wells producing on the territory.

Q. What is the fact in that regard with reference to No. 2?

A. Well, I took as one of the factors that they had taken out some gas out of No. 1.

Q. Out of No. 1?

A. Yes; and I also took as a factor that the rock pressure, the original rock pressure, had been so much and the present rock pressure so much; I used that as a factor in arriving at my valuation.

Q. Is it a fact that there were no producing wells on No. 2?

A. There was no producing wells that I noted; there had been some wells drilled on it but I did not note any producing wells on it.

Q. Did you notice that there were dry holes on No. 2?

A. On some parts of it, yes.

Q. Do you recall how many?

A. No, I made no——

Q. Quite a few?

A. Not many.

Q. Not many dry holes?

A. Yes.

Q. I understand you to say that the gas content in these two classes was a factor?

A. I took note of the fact that they had taken out considerable gas out of No. 1.

Q. How much did you estimate that they had taken out of No. 1?

A. I estimated somewhere near 60 percent.

Q. Had been taken out?

A. Yes, sir.

Commissioner Geiger: How much?

The Witness: Close to 60 percent was my estimate.

By Mr. Davies:

Q. How did you calculate that estimate, Mr. Meals?

A. From the rock pressure.

Q. Well, what do you mean by that?

A. From the drop in rock pressure—from the original

3183

[fol. 1667] rock pressure to their average rock pressure today.

Q. Did you take it well by well for that purpose?

A. No, I used their data as an average.

Q. How did you arrive at that average?

A. They have it averaged in their data.

Q. They have it averaged?

A. Yes, but they have it set up in districts in the field.

Q. In counties?

A. In counties and in townships so that you can see what the original rock pressure was in each county and in each township and the present rock pressure.

Q. In other words, do I understand you to say that from the wells that are now producing you concluded that those wells were exhausted to the extent of 60 percent?

A. Their records show the drop in rock pressure that would indicate that they have been depleted 60 percent on that acreage.

Q. Did you consider that in No. 1 there is still a large field for drilling?

A. Well, yes, I considered that. I have no doubt that they will continue to drill other wells on No. 1 and find large volumes of gas on it. However, their average is a little better than 80 acres to the well and in our own operations that is about all we try to do, to get a well on every 75 or 100 acres, although there are tracts in the territory of No. 1 that there is plenty of drilling on yet, in my judgment.

Q. Well, in connection with this No. 1 acreage, are there centers of high production where you have a number of wells clustered together?

A. Yes, there are tracts where there is——

3184

[fol. 1668] Q. How many such centers do you have in mind?

A. Well, I was not——

Q. Where you have wells close together—grouped, I will say?

A. I don't know how close you mean—a couple of thousand feet apart?

Q. Well, I will let you fix that, sir.

A. Well, there are—in fact, I went over the Ashland district and took the test of some of the wells in the Ashland district during the time that I was going over the Logan case, and I noted that in that section that they had some very nice wells and they were a reasonable distance apart, but there were, as you might say, quite a number of them in that certain locality—for instance, I have always considered Ohio in what operating we have done, that it was more or less lens or pools and in that lens we have developed, and there is where you might say there were a cluster of wells, though they may be one thousand or two thousand feet apart.

Q. Then there is a great deal of acreage where the wells are quite far apart, around there?

A. Yes, sir, there are.

Q. Did you notice or have in mind one situation where you have a well to a leasehold of 1250 acres?

A. I think I noted that.

Q. Did you keep that in as operated for the whole amount?

A. I think it was so calculated on the data that was given to me.

Q. Wouldn't you expect that more wells would be needed to be drilled on that acreage?

A. I have no doubt there will be.

Q. And get good results—or get results?

3185

[fol. 1669] A. Well, get results.

Q. You don't want to say good results?

A. I don't know.

Q. Why aren't you willing to say good results?

A. Well I don't know; you can't exactly tell although their drilling in Ohio I think has proven somewhere between 25 and 30 percent dry, and that is not bad.

Q. You aren't always—you are not sure generally of good results, are you?

A. No, but as I say from 75 to — well, from you might say from 65 to 70 percent of the wells are productive.

Q. On the proven territory?

A. On territory that they have been operating on.

Q. An the operated territory?

A. Yes, sir.

Commissioner Geiger: Now does that hold good to territory that has already been drilled into and been used for a number of years of virgin fresh territory?

The Witness: I stated that on the territory that they have operated I think that would prove true and I would expect it to prove true on the proven acreage.

Commissioner Geiger: Well, if a proven acreage is 60 percent exhausted then you could hardly expect to get as many good wells through the process of drilling new wells as you would if it had not been 60 percent exhausted?

The Witness: I did not say that, Judge; you said the proven acreage; it was in the developed property; now the proven acreage has not been drilled but I would expect to get at lease 60 to 70 per cent of wells drilled productive.

Commissioner Geiger: Well, instead of your proven

3186

[fol. 1670] property, take the already operated property over which there had been wells drilled and which you have testified were 60 percent exhausted, would you get that proportion of productive wells if you sunk additional wells on that territory?

The Witness: I would think they would, yes.

Commissioner Geiger: All right.

By Mr. Davies:

Q. In other words, as I understand you, Mr. Meals, you are indicating that the wells that are drilled and are producing are exhausted to the extent of 60 percent?

A. Their rock——

Q. But not that the proven territory is exhausted to that extent?

A. Oh, no, no, sir, only the wells that are producing and the only reason I have for calculating that is that the drop in their rock pressure would indicate it.

Q. In connection with your combining 1 and 2, there are a great many factors to be taken into consideration, aren't there?

A. Yes.

Q. And those factors present more or less uncertainty in connection with the question, do they not?

A. There is always uncertainty, but as I have stated and I did use that as a factor in figuring the valuations,

that around 65 to 75 percent of the wells drilled would be productive.

Q. What has the sand to do with the question or certainty or uncertainty?

A. Well, the Clinton sand—I think that is the sand that most of this gas is produced from—it is a tight sand although it has a long life—has a long life; I note from their records that the thickness of that sand runs somewhere from six to thirty feet and in exceptional cases much thicker than that—40 or 50 feet.

3187

[fol. 1671] Q. But those are exceptions?

A. These are exceptions. Now not all of the large wells that are found were in the thickest part of the sand; I know that; it depends, of course, on the porocity of the sand as to the volume of the well.

Q. The porocity of the sand is a factor?

A. Is a factor.

Q. The tightness of the sand is a factor?

A. Well, that is what we mean by porocity.

Q. Yes, I was thinking of something else; withdraw that question, please. The fact that it is a tight sand makes it uncertain as to whether you are going to get a producing well even when you drill it in Clinton territory; isn't that true?

A. That is true but I never have lost sight of the fact that a certain percentage of the wells drilled are productive.

Q. What assurance have you that the thickness of the sand, of this Clinton sand, will extend from the proven territory No. 1 into class No. 2 where there are no producing wells?

A. I could not say that it would but the trend of this production is along a certain line and this proven acreage is in that trend, and although this pool may not extend —it may or it may not extend over into the other, but in my judgment the proven acreage is proven because we know that there is the gas running through there along that certain trend and——

Q. How do you know that when you get a sand of 13 feet with a good production in No. 1 that you will get the same thickness of sand with that same production in No. 2?

A. You don't know that.

3188

[fol. 1672] Q. You just don't know that, do you?

A. No.

Q. Did you notice such a variation as this in your inquiries, that in Cuyahoga County you have an average sand thickness of 11.6 with a daily production per well of 26.3 and in Lorain County, which is up in the same general territory, you have an average sand thickness of 11.9 with a production of 63.8?

A. I don't know as to those—

Commissioner Geiger: Do you think it would be an advantage to pursue that detail?

Mr. Davies: I will not pursue it very far; I have plenty of detail here but I do not propose to pursue it very far.

Commissioner Geiger: Make your questions a little more general; not too much detail.

Mr. Davies: I am trying to but I want to take one or two illustrations, is all.

Commissioner Geiger: All right.

The Witness: I would like to see the data that you have asked that question on—that 63.2.

Commissioner Geiger: Is that going to justify the waste of time on it? Go ahead if you want to but it looks as though you were taking time on something that is not very important.

Mr. Davies: I will hold it down to just one illustration.

Mr. Turner: Of course, we might go through the record and find the other extreme, you know. The answer is that we are sending gas in here.

By Mr. Davies:

Q. Directing your attention to City's Exhibit No. 64, in connection with the question I have just asked you, and 3189

[fol. 1673] pointing out Cuyahoga County; average sand thickness 11.6, that takes you over to 26.3.

A. That is the average daily production of the well; I see; I could not get that 26 and the 63, but I see that is the daily production per well; and that can be accounted for largely by whether one is newer wells than the other; whether they have been drilled more recently: and you would have to check that up to see whether more gas had been taken out of that particular property.

Q. Did you notice in your study that there were quite a few contrasts even greater than that in those connections?

A. Oh, yes, there are.

Q. So that if you get a sand of a certain thickness with a certain production at one point you have no assurance that you will get the same production from the same thickness of sand in another location, have you?

A. No, but in their developing this property, if they get a well, even though the volume is not large and the thickness of the sand may be 11 feet, the chances are that they will want to drill not far from that and may develop a much larger well.

Q. And they may not?

A. And they may not. But as I say, the average shows that they do get them, about 60 to 75 percent of the ones drilled.

Commissioner Geiger: Let me ask you this general question; in your experience do you find that the fact that there is a lens or a pool, as you have designated, it is more important than the thickness of the sand?

The Witness: It is more important than the thickness of the sand.

Commissioner Geiger: The sand may be thick but it may 3190

[fol. 1674] be so located under ground that it hasn't any gas in it or is cut off by a fault or something like that?

The Witness: It might possibly be so tight that it did not contain any gas.

Commissioner Geiger: All right.

By Mr. Davies:

Q. So then with those factors in view it was your judgment that No. 1 and No. 2 should be considered together?

A. That is the way I made my calculations.

Q. And it was your judgment that their gas content was about the same?

A. No, I think your No. 2 may produce from this time on more gas than you will get out of No. 1 from this time on.

Q. What did you estimate the gas content per acre to be?

A. I did not make any calculation of that kind.

Q. How did you arrive at the calculation that 1 and 2 ought to be considered together?

A. By the location of the territory with reference to the general trend and to the wells that were producing.

Q. Did the possible amount of gas have anything to do with it?

A. I used that as a factory, yes, sir; I calculated it from the production that we were able to get from the wells that were producing. I had to have that as one of the factors.

Q. And what was the result of that calculation as to the gas production in No. 1 and No. 2, by acres, if you took it that way?

A. Well, I know what is calculated that the Clinton sand, for instance, will produce in Ohio—at least what engineers have figured and producers have figures—for instance, on this tract of territory that Mr. Brendel has been operating on and which I have been over up in Summit and Stark

3191

[fol. 1675] Counties, he figures that he will be able to get at least 10,000,000 feet per acre.

Q. 10,000,000 feet per acre?

A. Yes, I think he is high on the average all over the properties.

Commissioner Geiger: Did you make your estimate on what he figured?

The Witness: No, sir.

Commissioner Geiger: Well, then don't let's talk about that; let us get down to what you did; not what somebody else figured.

By Mr. Davies:

Q. What was your estimate per acre?

A. I told you I did not make an estimate; I did not use that.

Q. What did you use?

A. I expressed it here before that the location of the acreage with reference to the producing territory——

Q. Well, if there was no gas in that acreage at all it would have no value for gas purposes, would it?

A. No, but we don't know that, and we assume there is; and from the wells that have been drilled in the neighborhood I figure that that is valuable territory and could be sold as such.

Q. And if there was a small gas content there the lease would not be worth very much, would it?

A. Well, now, I would not say that; sometimes that is a nest egg to develop from.

Q. And if it develops that it is a large producing territory does that make the lease more valuable or not?

A. Oh, yes, if it is a large producing territory, why, it is more valuable.

Q. So you can not escape the fact that it is the quantity 3192

[fol. 1676] of the gas that cuts the figure as to the value of the lease or acreage, can you?

A. You have got to use what figures you have to arrive at a value, and that is one of the factors if you can get it.

Q. In other words, you put down no figures then in calculating the quantity of gas per acre in the various sections of the State of Ohio?

A. No, sir, not in that way; I did take into consideration, however, the volume of gas that this producing territory was able to turn out.

Q. You did take into consideration the volume of gas?

A. Yes, sir.

Q. And applying your experience to that volume, together with the quantity of acreage, you arrived at a figure; is that right?

A. Yes, sir, after going over their maps and finding the locations of the producing wells, the general trend of this territory that they asked us to value, and with my experience that I have had in buying and selling, and my knowledge of sales, I think I was able to put a valuation on it.

Q. Now then how did you turn that information into dollars, for instance?

A. I would say largely by what has—what territory has—what I have paid for territory and what I have sold it for and what others have bought it for and paid for it more than any other thing, established or helped me with the other data that I have to place a valuation on it.

Q. What would the price for which such gas could be sold have to do with converting your information into dollars?

A. Well, you can not get away from that fact, that you have to have value enough for your gas to justify your

operations, but that alone did not decide the matter, for this reason, if I had the number of acres that were shown here

3193

[fol. 1677] to be in No. 1 and No. 2, and proven as it is now with the wells that have been drilled, I would have no trouble in finding a market for it; in fact, the market would come to me; if I had that acreage that could produce daily the amount of gas that that territory is turning out the market would come to me.

Q. Well, does the market just necessarily mean a price for gas to—what does market mean if it does not mean a place where you can place your gas and also the price at which you may place it?

A. If I had that acreage and would produce from it, and knew that I could produce one million or 200 million feet of gas per day production, I would be able to get a better price for that than some of these small producers are getting around here because I would have something that would be able to continue to produce; there is so many acres that is now producing; we know that; here is so many acres that is proven that we can back that up with; therefore you would be able to show the bankers or the other fellows who would come after it that you had something there that was going to have a long life and that you could supply a uniform market and continue to supply it. Then I would be able to get a better price. Now I had to take into consideration some prices, of course.

Q. And that price idea is what you had in mind in converting your volume information into dollars, of course?

A. I would not just say it that way, because I know that you have got to have money for this gas, but I know that it is a territory that I was trying to put a value on; I have got to have enough money to justify it; now then——

3194

[fol. 1678] Q. You have to have volume——

Mr. Turner: Oh, I object to the interruption. Let him finish his answer.

The Witness: Instead of 18 cents that they are paying for gas, or 15 cents as has been stated here, and I know it to be a fact, I would likely be able to sell gas at the mouth of the well at a much higher price than that, if I had that volume of gas. Somebody would come to me to get it and it would find a market; I don't know where.

Q. And if you were sure you could get a certain high price for your gas you could afford to pay that much higher price for your leases, couldn't you?

A. Yes, I think you would have to say that.

Q. Or if you were appraising leases and you had that information in mind, that would reflect itself in your valuation of the leases, wouldn't it?

A. Well, I have taken into consideration the prices that have been paid at the well; I have taken that into consideration, but I have not figured that 15 or 18 cents is the figure that you would have to sell this gas at.

Q. What price did you have in mind?

A. Somewhere near 20 to 25 cents is what I was figuring at as a price at the well.

Q. 20 to 25 cents price at the well that you had in mind in fixing this valuation?

A. Yes.

Commissioner Geiger: Well, now right there at that point, so we get it tied to your remarks, have you sold gas at the well at 20 to 25 cents?

The Witness: I have at 25 cents.

3195

[fol. 1679] Commissioner Geiger: Where?

The Witness: In Pennsylvania; not in Ohio.

Commissioner Geiger: Have you in Ohio?

The Witness: Not in Ohio.

Commissioner Geiger: Do you know anybody that has paid 25 cents at the mouth of the well for gas in Ohio?

The Witness: Possibly not at the mouth of the well but on the property where the gathering lines brought it all together.

Commissioner Geiger: Where is that?

The Witness: I don't know whether they are doing it now or not but——

Commissioner Geiger: When did they do it?

The Witness: In 1929.

Commissioner Geiger: Where?

The Witness: In Muskingum County.

Commissioner Geiger: Near Zanesville?

The Witness: South of Zanesville.

Commissioner Geiger: Was it domestic consumed gas or industrial gas?

The Witness: Possibly it went into utility lines.

Commissioner Geiger: It went into utility lines?

The Witness: Yes, sir.

Commissioner Geiger: That is, you say you know in Muskingum County in 1929 a transportation company paid to the producer at the mouth, or substantially at the mouth of the well, 25 cents a thousand cubic feet?

The Witness: Yes.

Commissioner Geiger: Do you know of any other places?

3196

[fol. 1680] The Witness: I don't have knowledge of other places; there may be.

Commissioner Geiger: Do you know where that gas was taken; was it sold in the potteries in and near Zanesville?

The Witness: Yes, some of it was sold there; in fact I remember now that the little company that I happen to have an interest in is selling gas to a pottery now at 25 cents.

Commissioner Geiger: 25 cents?

The Witness: Yes, sir.

Commissioner Geiger: At the mouth of the well?

The Witness: Practically at the mouth of the well.

Commissioner Geiger: All right.

By Mr. Davies:

Q. What do you mean by say- "practically at the mouth of the well"?

A. Well, it may be that we laid 1,000 feet of line up to their land, or something like that—small pipe.

Q. And is this the company that you spoke about a few minutes before in answering the Commissioner's question about selling gas around Zanesville?

A. No.

Q. What company did buy that gas that you referred to at Zanesville?

A. I think it was the Logan Gas Company if I recall right.

Q. And from what company did they buy it?

A. I don't know whether I can recall the——

Commissioner Geiger: Answer this question; did they buy it from a company that was a subsidiary to the same holding company that the Logan is a subsidiary?

The Witness: No, sir, not at that time.

Commissioner Geiger: All right.

3197

[fol. 1681] By Mr. Davies:

Q. Did you say when that was, Mr. Meals?

A. I think they were doing that in 1928 and 1929.

Q. And that is an exceptional price at the well, is it not, in the State of Ohio?

A. It may be in the State of Ohio.

Q. But that was the price that you had in mind in working out your factors here in arriving at a value per acre as I understood you a moment ago?

A. I will say that that had not come into my mind when I was working this out but when you asked me the question I recalled that fact.

Q. You did not have that in mind?

A. Not that particular case in mind.

Q. Oh, no, but that particular price I am speaking about?

A. Something between 20 and 25.

Q. And you feel that you were furnished with all the information that was necessary for you to have in order to make this appraisement?

A. Yes, sir, I think the information is sufficient to make a valuation on it.

Q. It is all the information you would desire if you were to be a prospective purchaser?

A. Yes, sir.

Q. And in connection with the information submitted to you you were furnished the information that is contained on City's Exhibit No. 64, entitled "The Ohio Fuel Gas Company, Summary of Gas Wells as of June 30th, 1929, Recapitulation," were you?

A. Yes, sir.

Q. And with the detailed information that went in connection with that?

A. Yes, sir.

Q. That went with that summary?

A. Yes, sir.

Q. And that is true with reference to City's Exhibit No. 3198

[fol. 1682] 63 entitled "The Ohio Fuel Gas Company, Summary——

Commissioner Geiger: Just give the number.

Mr. Davies: I am just giving the title.

Q. (Continuing:) "Summary of Gas Lands as of June 30th, 1929, summarized by counties"?

A. Yes, sir.

Q. And you were furnished the detailed information of which that was the summary?

A. Yes, sir.

Q. And the same with reference to the City's Exhibit No. 62, entitled "The Ohio Fuel Gas Company, Summary of Gas Lands, Recapitulation"?

A. Yes, sir.

Q. And the detailed information in connection with that summary?

A. Yes, sir.

Q. And in connection with that you were furnished the maps?

A. The maps of all their acreage showing the operated and unoperated territory.

Q. Operated and unoperated, indicated by four colors?

A. Yes, sir.

Q. And you had nothing to do with that classification of course, had you?

A. Nothing at all.

Q. You just accepted the classification, together with the acreage, that was submitted to you?

A. Yes.

Commissioner Geiger: Now I wonder if we can just speed it up a little bit.

Q. Mr. Meals, what estimate of gas content did you arrive at for classes 3 and 4 which you grouped together?

A. I did not calculate it at any; I used the valuation from the territory itself and the location of it and the possibilities that I considered were there, and did not make any calculation.

3199

[fol. 1683] Q. You did not consider the possibilities very great there, did you?

A. Well, there may be just as good territory among that as there is in your No. 1 and No. 2.

Q. There might be?

A. There might be, yes.

Q. But you did not have much confidence in that "might," did you?

A. Well, I think your No. 3, the way it is located, would be proven enough to be of much more value than the No. 4.

Q. Than No 4?

A. Yes, but I put them together; I grouped them together in my estimate or in my figures.

Q. When you speak of location with reference to No. 3 and No. 4, what do you mean by that?

A. The location as to the developed acreage by this company and other companies.

Q. And would its distance from the developed territory have some influence?

A. It might have some but not for—I don't know how to express it—the distance from the developed acreage would not have a full bearing if the territory was in the right direction, in the direction that the pool seemed to be running.

Q. How do you determine the direction of the pool?

A. Well, it is the well; the wells that have been drilled, that has defined it practically, especially in Ohio.

Q. If you have a given proven territory and you drill a well north of it and you would find a producing well there, then what would you assume with reference to territory on the east of such producing well; would you say that goes into No. 3 for that reason?

A. You might want to go northeast from your proven well because your territory seems to be running rather north and east in the northern section of Ohio.

3200

[fol. 1684]. Q. Now what factor did you use in converting this information or this judgment in reference to gas content of 3 and 4 into dollars per acre; what was your factor there?

A. Well, there were quite a number of them; as I told you before, the Clinton sand and its ability to produce, and produce for a long time, and I took into consideration the average size of the wells that they have been able to find, and of course I had to figure the volume of these wells, the output of these wells, as a factor, but summing it all up it would be in my judgment a value of the acreage somewhat like you might say to a farmer "How much grain were you able to get from that acre of ground out there on this

farm"? Now, if you were buying a farm you would want to know about how productive it was; if I was going to buy this acreage I would have to know how productive it was of gas, and on that I would assume and take it into consideration that this proven acreage would be something like the acreage that had been drilled.

Q. You have in mind now you are speaking with reference to classifications 3 and 4?

A. Yes.

Commissioner Geiger: Why do you designate it as proven acreage; it is not proven at all, is it, except by its general location; it has not been proven by drilling wells on it?

The Witness: No, but there has been wells drilled along that same trend.

Commissioner Geiger: All right.

The Witness: In some sections of that country this company may not have them but other companies have; I believe that in the Logan case while we had the No. 4—what they called wildcat territory, while the case was going on

3201

[fol. 1685] here they opened up the Cambridge pool that was wildcat territory, and I guess you are all familiar with what that produced.

By Mr. Davis:

Q. Your valuation per acre of 3 and 4 is $4.00 per acre?

A. Yes, sir.

Q. And your valuation of 1 and 2 is $60.00 per acre?

A. $60.00 per acre.

[fol. 1686] Q. What examination did you make of the various leases for this leasehold acreage?

A. I went over the data that was given to me here showing the forms of the lease and the date showing the terms and the amount of rental that was paid thereon.

Q. What effect did the terms and conditions in those leases reflect in your valuation?

A. Well, I used that as one of the factors; the rental was somewhere from $100.00 to $200.00 an acre mostly—I mean the royalties were from $100 to $200 per acre that they had to pay on a gas well, and the rental from 50 cents to $1.00, and that was one of the factors that I took into consideration.

Q. You found that to be one of the usual general factors used in leases—the terms, I mean?

A. Yes; the average is somewhat less than we are paying in Pennsylvania and West Virginia now.

Mr. Turner: That is the average leasehold?

The Witness: The average rental is less in Ohio than it is in West Virginia and Pennsylvania.

By Mr. Davies:

Q. Did the fact that some of the leases carry a two year term and other leases carry a 5, 10 and 15 and 20 year terms have any influence in the value?

A. No, not exactly, because we, in our operation—and 3202

[fol. 1687] this company is likely the same—are able to get them extended; if not, they have to drill them, if they are in territory that they wish to hold the acreage.

Commissioner Geiger: Are any of these leases written so that the lease itself and the right to drill terminates in a short period, or is it merely a provision in the lease that you must drill within a given length of time?

A. The leases are that for a term of years and as much longer as the gas is producing; some are for a shorter term than others but that is in all operating companies and they either get an extension for five or ten years longer if they don't care to drill it, and if the lease is considered valuable, why, it is drilled, if they are unable to make those kind of terms.

By Mr. Davies:

Q. And that is even true in spite of the fact that none of these leases contain a renewal clause, is that right?

A. That is right, but I did not notice that they had any clause in them where they had a right to renew.

Q. You found no renewal clauses in the leases, did you?

A. No.

Q. And you have not reflected here any difference between a lease for two years without a renewal clause and a lease for ten years without a renewal clause?

A. No, it would not make any appreciable difference.

Q. And would it make any difference if you had a lease with a very few conditions in, such as the early leases were made, what you might term the short form, and the lease

of later years with a great many conditions in them that you might term a long form, with such conditions as warranty of title and the right to pay off the mortgage and be

3203

[fol. 1688] subrogated to the liens paid in order to protect your lease, and that sort of thing; does that reflect anything in the value of the lease?

A. No, sir, not in my calculation.

Q. It would make a difference, Mr. Meals, if you were buying just a single lease or a single piece of property whether you would take a lease in a short form or take a lease in a long form?

A. Do you mean would it make a difference in the valuation I would place on it?

Q. On a given lease now for gas leasehold acreage.

A. I think it would depend on the location of the lease.

Q. Well, if the locations worked out right would it make any difference?

A. Very little; I wouldn't think sufficient to take it into the calculation.

Q. So that if I offered you today a two year lease with no right of renewal and with no particular conditions in it except royalty and delayed rental and the right upon the part of the lessor to take domestic gas for his own use, if I offered you such a lease as that, and another lease for ten years on comparable property, with delayed rental, the same delayed rental and the same royalty, with no right of renewal, and with conditions that you are familiar with that are in the present-day leases, which would be in the long form, namely, warranty of title, option on the part of the lessee to drill offset wells, the right of subrogation in order to protect title, etc.

A. It would make a difference if it was an individual lease, but there isn't enough in this—in the leases here that we have in question to affect my valuations because this company is drilling a number of wells each year and if one of those leases that is running out cannot be ex-

3204

[fol. 1689] tended, naturally it is taken care of in their operations for that year.

Q. In other words, in a situation such as this, you give effect to general conditions rather than to specific conditions in leases, etc.?

A. Yes, sir, if I were buying one lease from you, of course I would make a difference, if I was buying it for myself.

Q. Of course you did not attempt to identify any particular lease with any particular classification, 1, 2, 3, or 4, in location, did you?

(No reply.)

Q. Do you get my question? Here is a lease for so many acres; do you attempt to identify that piece of property described in that lease with the territory on the map, finding where that was located, as to 1, 2, 3, or 4?

A. I did take a good many of the leases and check them up with the maps as to their location, especially on No. 1, and then on No. 2 and on No. 3, and then on No. 4; I did not go over every lease that way but I went over quite a number in that way.

Q. And you did not attempt to aggregate the acreage in that way that would be covered by one type of lease or another?

A. No.

Commissioner Geiger: I think he has covered that three or four different times.

Mr. Davies: All right.

Commissioner Geiger: The substance of all you have said about the valuation of the leases is that you regarded the location of the property and its probability of having gas under it as more, and a better element, to change the value of the lease than the terms of the lease itself?

3205

[fol. 1690] The Witness: Yes.

Commissioner Geiger: Is that right?

The Witness: That is right.

Commissioner Geiger: All right, I think he has covered that.

Mr. Davies: I will leave it right there.

[fol. 1691] Commissioner Geiger: Let me ask you another question: have you the total—or somebody—the total of 1 and 2 at $60.00 per acre, how much is that?

Mr. Turner: 1 is $17,483,760.00. No. 2 is $9,884,340. Now add those two together to get his No. 1.

Commissioner Geiger: And 3 and 4?

Mr. Turner: I think 3 is $1,250,924.00 and 4 is $8,261,684.00.

Commissioner Geiger: How did you compare your estimate of 3 and 4 at $4.00 per acre with the estimate of the other witnesses in this case as No. 3 at $10.00 per acre and No. 4 at $3.00 per acre?

The Witness: No, sir.

Commissioner Geiger: The addition of those two under one acreage and call it your No. 2 at a fixed valuation of $4.00 for the total of those two groups would produce a figure comparable with their addition of No. 3 at $10.00 and No. 4 at $3.00—some of the other witnesses; you did not pay any attention to that?

The Witness: No; in fact, I don't know what their figures were; I heard it yesterday but I do not recall.

Commissioner Geiger: All right.

By Mr. Davies:

Q. Did you ever use in your appraisements the classification of "operated", "probable", "possible" and "un-

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[fol. 1692] satisfactory"?

A. No, I never did.

Q. Did you ever hear of it being used?

Commissioner Geiger: Is it used in this other evidence in chief?

Mr. Turner: No.

Commissioner Geiger: Well, let's let it go then; produce the original witness.

Mr. Davies: I am asking if he ever used it.

Commissioner Geiger: Well, you are cross-examining him on testimony that he has given heretofore; if you are going to bring that in, bring it in with your witnesses on direct; it is not proper for cross-examination. Anything further?

Mr. Davies: Oh, yes.

Commissioner Geiger: What we would like to know is what you regard as constituting the enhancement in value of the acreage between the time the owner, be he a farmer or otherwise, makes the lease to the company or any one who gathers those leases, and the time when you appraised it; now all the land owner gets out of it here is a deferred rental and generally $200.00 or the oil or gas well; now what enhances that property from the point that the owner gets the return from it and when you have appraised it

at $60.00 an acre? Is it because there has been a discovery or gas or development of gas or is it because there has been an aggregation of great acreage which will constitute a supply which will justify the company putting down transmission lines and selling gas. In other words, is it a discovery value or is it an aggregation value?

The Witness: I would answer that in this way, that

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[fol. 1693] both—that is, if a block of acreage was secured, a solid block of acreage in one entire block, you can realize more from that possibly than you would if you would go out and get a small acreage from this and that fellow; after you get it blocked up it is worth, more money; but the discovery of gas, or sometimes the geologists have gone over this territory and found that this is likely looking territory for gas.

Commissioner Geiger: Now right there at that point, the geologist goes over the territory and discovers it is likely property for gas; then he goes to the owners or the solicitors to get the leases from the owners; they go and make these leases; now no owner in that whole territory will be at that time so dumb as not to know that it is prospective gas property; he is leasing it for prospective and probable gas property, isn't he?

The Witness: Yes, sir.

Commissioner Geiger: And he is leasing it on a deferred rental of 50 cents an acre or $200.00 for each gas well that he gets. Now after a man has acquired those leases and has a great group of property, then he goes out and says "MY group of property which I have covered by these leases which were made by the farmer, knowing that it was gas property, is now worth $60.00 an acre". Now where is the great growth in the value of that property between the farmer who leased it and the company which has it in the aggregate lump?

The Witness: [redacted] evidently must be in the discovery of gas.

Commissioner Geiger: Well, the farmer knew at the time he signed the lease, didn't he, that there was gas there?

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[fol. 1694] Mr. Turner: Oh, no, he did not.

Commissioner Geiger: Well, do you want to testify? If you do, get on the stand.

Mr. Turner: Well, if you are going to testify, I want you on the stand. If you are going to run this case on cross-examination, I want you down at the table here.

Commissioner Geiger: Leave this out of the record——

Mr. Turner: O, no, you won't; put it right in. I want to show——

Commissioner Geiger: I insist on it being left out. Mr. Okey, in your experience before this Commission, does the Commission run the record or does counsel run it?

Mr. Turner: Well, counsel will insist on it being in and will mandamus you if necessary.

(Record read.)

The Witness: Will you let me relate one instance that happened just recently on an increase of value?

Commissioner Geiger: Oh, certainly.

The Witness: You have all heard about Tioga County, Pennsylvania. Mr. Brendel, who has operated up in Ohio here——

Mr. Huffman: I think we will object to this. He is going into Pennsylvania.

Commissioner Geiger: He is using it as an illustration; proceed.

Mr. Huffman: If you try to take in that much territory, we object.

Commissioner Geiger: Objection overruled.

Mr. Huffman: Note an exception.

The Witness: Mr. Brendel went up in Tioga County and 3209
[fol. 1695] drilled a well; of course that was not a discovery well but it was about the third well drilled in. Later they paid $500.00 an acre for territory to the farmer, some of it, for acreage within a mile and a half of that. I think they paid too much but it has been paid. Now north of this well about a mile and a half parties who had leased that property was asking $2,000.00 an acre for 40 acres, and the company that is trying to buy up that territory refused to pay it and they would not sell for any less and are now drilling it. Now what made the increased value of that acreage? At one time you could have had it for a song. It was the development of gas in there that brought that about. There is nothing else to do it.

Commissioner Geiger: Well, then would you say that the fact that the territory is being developed as a gas territory enhances the value of leaseholds?

The Witness: The leaseholds adjoining it in that locality where they are likely to be productive.

Commissioner Geiger: Now to what extent would value be added to it because there were a large number of acres grouped together under a common holding of leases?

The Witness: That would not be any great value; it would be some, of course. To an operating company like the Ohio Fuel it is worth a lot to them to have all of the territory under control, some way or the other; it is worth a lot to the consumer because the company is going to be able to better protect the consumer by having that acreage blocked up solid. It is worth an increased value in that way.

Commissioner Geiger: So that a company desiring to control and to get territory, or at least to have a supply

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[fol. 1696] of gas that is adequate to its demands, would be willing to pay more for acreage that would probably develop gas that would somebody that was merely buying and selling leases? "

The Witness: They should and I think they would be.

Commissioner Geiger: All right.

By Mr. Davies:

Q. And in connection with that question of Judge Geiger of the difference in value, do you have in mind the fact that the consumer is paying delayed rentals on all of this territory?

A. No, I don't think so.

Q. Do you know that as a matter of fact in the book keeping of the Ohio Fuel Gas Company that the delayed rentals are charged to operating expense?

A. They naturally are but I assume that the Commission fixes the rate.

Q. How?

A. I assume the Commission fixed the rate that they are going to be able to get for their gas; I don't know how you can figure exactly that the consumer is paying the rental.

Q. But he is paying a rate fixed on that expense, isn't he?

A. Well, the consumer is paying on the—he is paying for not only the gas but he is paying for a service there. There are some consumers that are not profitable to the company I am sure; that has been our experience. Here is a consumer out here that perhaps I send out a meter man and he don't pay enough to pay for the man's trip out there. He is getting a service that is worth something in addition to the gas—worth quite a little bit more.

Q. Well, I am trying to keep this matter directly to the question of leaseholds; if I asked you a question that led you off, I did not intend to. And did you also have in mind

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[fol. 1697] that the Company charges up the royalties to the operating expense?

A. I did not take that in my calculation at all because——

Q. And this other fact that the company charges up the cost of dry holes to operating expenses——

A. I hadn't any of those figures in mind at all when I made my calculation. It was on the value of the acreage and what it would be sold for with the conditions which we found there.

Q. And did you at all take into consideration what these leaseholds cost the company, what they pay for them?

A. I did not find that in any of the data when it was given to me.

Q. Such information was not furnished to you and you did not obtain it?

A. I did not obtain it.

Q. And that was not considered by you?

A. No, sir.

Q. Had you any reason to believe that on June 30th, 1929, the Ohio Fuel Gas Company was a willing seller of its total gas leasehold acreage that you appraised?

Mr. Turner: May we have the usual ruling there? I just want to preserve the same ruling that we have had before and the exception.

Commissioner Geiger: Well, I think we have sustained that, haven't we?

Mr. Turner: No, you overruled it for me a couple of times. I think it should have been sustained.

Commissioner Geiger: Whether the Ohio Fuel Gas Company was a willing seller? What has that got to do with it?

Mr. Turner: It hasn't anything to do with it.

Mr. Davies: Well, we beg to differ with both the Com-

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[fol. 1698] mission and the attorney here. We feel that it does have some bearing.

Commissioner Geiger: Well, it is so remote that personally I would not want to waste much time on it, but let it in. Same ruling as before; objection overruled.

Mr. Turner: Note an exception.

Q. Did you know at that time of a willing seller in the State of Ohio of leasehold acreage of the size and quality and production, etc., of this leasehold acreage that you appraised here?

A. No; I don't think that there is any acreage of that size, to my knowledge, that has been offered.

Q. At any time?

A. At any time.

Q. In recent years?

A. No.

Q. Do you know of any sale in Ohio in the immediate past or on or about June 30th, 1930, of a total leasehold acreage comparable to the acreage that you appraised here?

A. No, not an acreage of this size.

Q. Are you familiar with the fact that the company for the past several years, 1927, 1928 and 1929 had acquired quite a considerable gas leasehold acreage by leases from the original land owner?

A. No, I don't know only what data was furnished to me here in this——

Q. And you did not know or have in mind the terms on which they had procured that additional leasehold acreage, had you?

A. No, I don't know what the terms were. I know the terms of the lease is all. The two million acre block is around 50 cents an acre, which we figure is very low rental.

Q. The record here shows that in the years 1927, 1928 and 1929 the company secured 1,900,000 plus acres by

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[fol. 1699] lease, and assuming that the terms were the ordinary general terms that we have been discussing,

would that have any effect on your valuation or leaseholds?

A. No, not the way that I figured it out. However, I do know, I guess, that they have taken up some acreage in the east or northeastern part—the eastern part of Ohio after there had been opened up some gas sands that the gas people did not seem to know of even at that time. I assume that they are taking up leases and surrendering leases off and on all the time; all gas companies do more or less of that.

Q. They do?

A. I dropped 30,000 acres last month in our company, and that is a large number of acres for the small acreage that we carry.

Commissioner Geiger: Where was that?

The Witness: In Pennsylvania and West Virginia.

Commissioner Geiger: What would you designate that real estate in your designation of Ohio real estate, as No. 1 or No. 2?

The Witness: Well, I figure—they call it wildcat; it was in No. 4 and some——

Commissioner Geiger: Wait a minute; you have figured No. 4 and No. 3 and have put it all in at $4.00 an acre; would you think that No. 4, if it were classified alone as No. 4 would be worth $4.00 an acre in the Ohio field?

The Witness: No, I don't think I would want to pay that for No. 4 alone.

Commissioner Geiger: What would you say No. 4 would be worth in Ohio as the other appraisers have designated it?

The Witness: Well, it is worth more possibly than what

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[fol. 1700] it cost to take it up and I assume that they have in the neighborhood of $4.00 in it now, but the question in my mind is whether you could sell that large acreage alone for $4.00; it might bring two or three dollars.

Commissioner Geiger: All right, say $2.50. Now you surrendered 30,000 acres in Pennsylvania which would be comparable to No. 4, for $2.50; would that be right?

The Witness: Yes.

Commissioner Geiger: That would be $75,000.00; now you surrendered it back to the original holders?

The Witness: Yes, sir.

Commissioner Geiger: Cancelled the leases?

The Witness: Yes, sir.

Commissioner Geiger: Now how much is it worth as gas land now, with no leases on it?

The Witness: It might have a value but it will have to be proven, and in these hard times we are trying to save money and let it go and may pick it up again.

Commissioner Geiger: I see; but it having been worth theoretically $2.50 an acre as acreage No. 4, you surrendered and said to the lessor "we are not interested enough in that to pay the deferred 50 cents and your rental"; then what becomes of that value that was estimated by you at $75,000.00?

The Witness: It would have to be charged off; it may have been put in at that rate; it may have cost more than that but it would have to be charged off when I surrendered it. Now because I surrendered it I would not say that it was not a valuable territory; but, as I say, we wanted to cut down expenses and I picked out the outlying edges

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[fol. 1701] of our blocks and surrendered about 30,000 acres.

Commissioner Geiger: And then it lost whatever value it had as an aggregated piece of property, 30,000 acres?

The Witness: Yes, sir.

Commissioner Geiger: It was no longer a 30,000 acre group of gas property but was simply the holdings of individual owners, and if anybody in the future goes out and gathers up those leases again and gets the 30,000 acres back into a single group, then it will be worth, provided the market is good, more per acre a good deal than it is now as being owned by the farmers?

The Witness: It naturally would bring more of it was blocked up together.

Commissioner Geiger: In other words, the blocking of acreage, of gas acreage, into large groups of acreage and large holdings is a distinct enhancement of value of each individual acre that makes up that large group?

The Witness: It ought to be worth more than it cost to block it up, yes sir.

Commissioner Geiger: All right.

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3216

[fol. 1702]

Cross examined by Mr. Davies:

Q. Are the gas companies quite general just now in their practice of dropping acreage, leasehold acreage, gas leasehold acreage?

A. I don't——

Q. As you suggested in this forenoon in answer to the Commissioner's question?

A. I don't know about Ohio, but that has been the case in West Virginia and Pennsylvania recently.

Q. Is that true also with reference to public utility gas companies, corporations?

A. Yes.

Q. In connection with the making of your appraisement was your attention called to the existing contract between The Ohio Fuel Gas Company and the Preston Oil Company by which it is agreed that whenever The Ohio Fuel Gas Company strikes an oil well that oil well is to be turned over to the Preston Company upon the payment of the delayed rental connected with that particular acreage and the cost of drilling the well?

A. No, that was not called to my attention at the time I made these valuations.

Q. And was your attention called further to the fact that the Preston Oil Company holds the oil interest in all the leaseholds that you were appraising?

A. No.

Q. What effect, if any, would that have on your valuation?

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[fol. 1703] Mr. Turner: I object. The question is not stating the situation fully by showing the reciprocal obligation of the Preston to turn over gas wells.

Q. Let me add then to that this; that also in that connection, when the Preston Company would strike a gas well in its drilling, that the gas well would be turned over to The Ohio Fuel Gas Company on the same terms?

A. That was not called to my attention, but I believe we have similar cases in my company and we think it is an advantage. It has proven so in a great many instances.

Q. You are speaking with reference to your own company?

A. Yes.

Q. Taking it from that standpoint?

A. Yes.

Q. But this company is not a public utility, is it?

A. No, not in a general sense.

Q. Who carries the delayed rentals in your company?

A. We have been carrying the delayed rentals in most of the cases.

Q. Would that fact make any difference if in a public utility case the delayed rental is charged to operating expense?

A. It wouldn't have any effect on the valuations that I placed on the acreage.

[fol. 1704] By Commissioner Geiger:

Q. Would you give us your idea of the frequency or infrequency of the arrangement by which a producing transportation and distributing company purchases from any other company or individual large groups of acreage? Do you understand my question? In other words, isn't that the usual way in which this is done, that the companies which become the producing, transporting and distributing companies usually make their contracts directly with the owners

3218

[fol. 1705] of the property on a deferred rental basis and a provision of paying so much per operated gas well?

A. I think that most of the leases that I ran over here were taken by the company, but a large acreage is purchased from time to time from parties who blocked them up and assigned them to the operating company.

Q. Are there companies or individuals who are engaged in the business of gathering leases on prospective gas properties for the purpose of selling them to other larger companies, either blocks or otherwise?

A. I know of no companies. I know of quite a number of individuals that make that a practice of leasing up blocks and selling them to whoever they can.

Q. In other words, they go out and get from the owner of the land a lease?

A. Yes.

Q. On a standard form of lease that is acceptable usually to gas companies, and having acquired leases on large blocks of property they then seek out the developing and drilling

and transportation companies to whom they would sell the block of leases; is that correct?

A. It is. The larger part of our earlier acreage with our company was taken in that way.

Mr. Davies: I didn't hear that answer.

The Witness: The larger part of our earlier acreage in our company were taken in that way.

By Mr. Davies:

Q. You said this forenoon that you were an appraiser in the Logan case, I believe?

A. Yes.

Q. You examined and prepared as a witness in that case with reference to the leasehold values?

A. I did.

Q. Of that company in 1925. What would you say as to whether the leasehold acreage of the Logan Company was generally comparable with the leasehold acreage of the Ohio

3219

[fol. 1706] Fuel Supply Company that you are appraising at this time?

A. You mean in location?

Q. In location and in production and availability.

A. Very much alike.

Q. And you are conscious of the fact that generally speaking the Logan acreage was in the acreage that you are appraising at this time?

A. Yes, sir.

Q. And do you recall that your appraisement in the Logan case was the same as in this case?

A. Yes, sir.

Q. $60 per acre for one and $60 for two and four for three and four for four?

A. Yes, sir.

Commissioner Geiger: That was not what he appraised it in this case. He didn't give it that way because he put one and two together——

The Witness: It came to the same figure.

Commissioner Geiger: Yes, it came to the same thing.

Q. And Mr. Meals, do you practically agree with Mr. Dalley and Mr. Wittmer in their general estimate that there is about 4,000,000 cubic feet of gas per acre in what has been designated as No. 1 operated acreage?

A. I can't exactly answer that, because I haven't figured out or had it figured out to me. It has all been told to me by parties who have calculated it that the average in Ohio was somewhere between four and five million feet per acre. There are others who figure it higher than that. You will find lots of places in Ohio where it does run much higher.

Q. Sure.

A. But the average they claim is from four to five. I never calculated it.

Q. Now, you spoke this forenoon of your estimate that 3220

[fol. 1707] the producing wells of The Ohio Fuel Gas Company were depleted to about an average of 60 per cent.?

A. The territory, yes, as covered here in No. 1 territory.

Q. Yes, producing wells.

Mr. Turner: Oh, no, he is talking about territory and you are talking about wells.

The Witness: I said the producing territory in my estimation, taking the original rock pressure and the present rock pressure would indicate that that acreage had been depleted about 60 per cent.

Q. Do you say now that——

By Mr. Commissioner Geiger:

Q. Didn't we understand you this morning to correct that and say it was the producing well, the drilled well that had depreciated and not the acreage?

Mr. Turner: No.

Q. You wish now to correct it and say the acreage rather than the drilled well?

A. If I gave you to understand it was the wells that were depleted, naturally the rock pressure is taken from the well and——

Q. We understand all that.

A. All right.

Q. You want to say that the acreage No. 1 is in your estimation depleted 60 per cent?

A. Yes, that is the way I thought I put it this morning.

Commissioner Geiger: Very well.

Mr. Turner: I understood what he was driving at——

Commissioner Geiger: I understood it the other way this morning and he seems to want to correct it now.

Mr. Turner: Well, I was thinking of one thing——

3221

[fol. 1708] Mr. Davies: How particular a calculation did you make to get at that conclusion?

A. I will give you the figures and you can——

Commissioner Geiger: No.

Mr. Turner: He went into that same thing this morning.

Q. Did you make working sheets in that connection?

A. Oh, yes, yes, sir.

Q. Have you those working sheets?

A. No, I do not have.

Q. Where are they?

A. Well, I made most of those figures pretty near a year ago, I may locate them at home.

Q. Then if that is the case, what valuation per acre do you put on what has been generally designated here as No. 2, where there are no wells drilled?

A. If that acreage was for sale today, it would bring a much higher price than I put on it.

Q. Do you think that is an answer to my question, fairly now?

Commissioner Geiger: You answer the question; don't get into things that takes time and don't get anywhere. You can explain afterward, but answer the question.

The Witness: Well, it would bring more than $100 an acre; at least that.

Q. If that is the situation, why did you class 1 and 2 together?

A. Because I was figuring on a sale of the leaseholds, and I am satisfied that if I were buying the No. 1 I would want the No. 2.

Q. But if what you say now is true, there is a very distinct difference between 1 and 2, is there not?

A. There is a distinct difference in this fact, that No. 1

3222

[fol. 1709] has been depleted. I can't tell you or no one else exactly whether No. 2 has been depleted any at all, but

I wouldn't think it is depleted enough to come in under the class of No. 1. It ought to be more valuable on that account.

Q. Well, what is your valuation; what valuation would you put on No. 1 alone then?

A. You had better let me go back to my work sheets. I don't like to answer you right off.

Q. I would be glad to let you do it.

By Commissioner Geiger:

Q. Can't you answer the question a little more directly? Do you regard No. 1 and No. 2 so far as the original gas content as being substantially the same, and had No. 1 not been depleted each would have been of equal value?

A. Yes.

Q. And so No. 1 having been depleted 60 percent., the remaining gas content is equal to 40 percent of No. 2 which you think is worth $100 an acre, therefore No. 1 is worth $40 an acre; is that about right?

A. That is close to it, yes, sir.

Commissioner Geiger: All right.

By Mr. Davies:

Q. Were you governed at all in your estimate of value by the price at which the company had returned its leasehold acreage for taxation purposes?

A. No, sir.

Q. Did you make any inquiry along that line?

A. No, I didn't.

Q. So it had no influence on your——

A. No.

Q. You made no inquiry along that line?

A. No, sir.

Q. So you don't know whether they make any return or not?

A. I made no inquiry at all.

3223

[fol. 1710] Q. And it didn't enter into your calculation?

A. No, sir.

Q. As a matter of fact, such leasehold acreage is of less value if a tax is paid on it?

A. It would have some bearing on it if the taxes were extremely high, but not any appreciable amount.

Q. What do you mean by that expression, taxes being extremely high?

A. Well, if there were a production tax or something like that on that thing, it might affect it.

Mr. Turner: I suppose you are anticipating some legislation here, are you?

Mr. Davies: No, I am not anticipating anything, Mr. Turner. I was just asking the question; that is all.

Commissioner Geiger: You think you have got them whipped by this time, do you?

Mr. Turner: I don't know. They have got some kind of propaganda that while the consumer pays the delayed rentals on the leaseholds he doesn't pay the excise tax. That is a great argument. It is a great game if you don't weaken. Of course, if they do raise this excise tax, we will have to come back and——

Commissioner Geiger: Well, the Legislature will adjourn today or tomorrow.

Mr. Turner: I thought the questions were directed to some of the new law that is going to come.

Mr. Davies: I was thinking from the standpoint of the regular tax.

Mr. Turner: I didn't know they paid regular tax on leaseholds.

Mr. Huffman: It is pretty valuable property to go untaxed.

3224

[fol. 1711] Commissioner Geiger: Gentlemen, we are wasting valuable time; we will never get through.

Mr. Davies: I am through.

By Commissioner Bricker:

Q. Is practically all of the gas throughout this territory in Ohio where there is a proven acreage leased up?

A. Yes, sir.

Q. Then there is no land sold in that territory with the gas included underground at the present time?

A. No, sir.

By Commissioner Geiger:

Q. Just one question after Mr. Bricker's question. Look at Exhibit 139. You will find the territory marked in different colors according to the legend 1, 2, 3 and 4. You have testified as to 1 and 2 being of the same value and

3 and 4 being of the same value. Now, there is a great deal of territory that is not covered in any color, and presumably it is gas producing territory or possibly at least. Do you know whether or not all the rest of that territory which on this map is uncolored is under lease to some other gas companies?

A. The larger part, as I understand, is leased up from here to the lake.

By Mr. Turner:

Q. From Coshocton County to the lake?

A. Yes; and is owned by the East Ohio Gas Company, and is held by the East Ohio Gas Company. A large part of this down through this section is owned by other companies.

Q. That is south of Coshocton County?

A. Yes.

Q. May I ask how many companies are operating, do you know, down there?

A. I don't know how many companies. There are several companies, but I can't tell you just how many. There is quite a number of independent operators in the lower

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[fol. 1712] section here, and there are independent operators up in here.

Q. That is up around Cleveland and east of Cleveland?

A. No, Ashtabula County. Mr. Schaffer, one of your Ohio men here, has got, I think, 7 or 8 wells in there now; got a nice production. That is in your wildcat acreage, too.

Q. That is the Ohio Fuel Gas Company's wildcat?

A. Class 4, yes. It is among the Ohio Fuel Company's class 4 acreage.

By Mr. Davies:

Q. Mr. Meals, directing your attention to Company Exhibit 139, and to a location here where the square is marked "Knox" and below it "Adams", I think it is in Muskingum County; I notice at the top of the square marked "Knox" a red colored cross, and then a blue which would be 2, and a brown which is 3, and then an acreage or space marked yellow which is 4, which is more than equal to the breadth of the marking for one, two and three; and then immediately below that in the square that is marked

Adams and immediately adjacent to No. 4 Knox, we have No. 1 for a little distance and then No. 2 for a shorter distance and then immediately below that a No. 4. How do you account for that combination of circumstances in acreage?

A. This is a very small scale map, and there is 2576 acres in the developed acreage classed as 1; there is 2807 acres in the proven acreage which is adjoining the development; and the yellow, there is something over 9000 acres, so much a small map it is hard to give it to you, but just take the larger maps and you will see their reasons for numbering this as class 4, this yellow.

Mr. Turner: It can be located, he says, on those other maps from which he made his appraisal.

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[fol. 1713] The Witness: It is 643 on your smaller map, Knox County—no, it is Muskingum, I think.

Mr. Davies: No, here it is. It is Guernsey.

Mr. Huffman: Knox is in Guernsey.

Mr. Turner: Page 127, volume 1 of the Ohio Fuel Company's map showing classification of gas land.

The Witness: They show on this map some structure in there. Now, you have——

Commissioner Geiger: Just wait; you haven't any more questions before you, I don't believe. Wait till another question is asked and maybe it won't be asked.

By Mr. Davies:

Q. You are referring me now to page 127 of a map book here that shows this Knox township?

A. Yes, sir.

Q. Then that discloses the fact, does it not, Mr. Meals, that map Exhibit 139 only pretends to show the quantities of 1, 2, 3 and 4 in each township and not their location?

A. That is correct.

Mr. Davies: That is what I wanted to get.

Redirect examination.

By Mr. Turner:

Q. Mr. Meals, did you fix in the value that you have given here in this case those values on the leases or upon the gas content?

A. On the leases.

Q. I will ask you if you were to appraise corn or wheat property, whether you would make an investigation to see whether the property was adapted for the raising of corn or wheat?

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[fol. 1714] Mr. Davies: We object.

Mr. Turner: Oh, I know you would object.

Commissioner Geiger: Objection sustained.

Mr. Turner: Note an exception. We expect the witness, if permitted to——

Commissioner Geiger: You would have to qualify him as to whether he knew anything about corn or wheat land. He says he has been 30 years——

Mr. Turner: Now, if you will put my exception down——

Commissioner Geiger: You will have to qualify him first.

Mr. Turner: I wish you would remember that in some of the objections I make to the other side's witnesses.

(Question read.)

Mr. Turner: We expect him to answer yes.

Q. Then I ask you the question whether or not you would take into consideration the price at which the corn or wheat was selling?

Mr. Davies: We object as not proper re-direct examination.

Commissioner Geiger: Well, what we are interested in is cutting down the record and save time, and I was wondering whether we could save time by letting you go ahead rather than ruling against you.

Mr. Turner: Why didn't you think of that in the hours that have gone by? I haven't had this witness two minutes. It is now 2:32 in the afternoon. He has been under cross-examination of yourself and the counsel on the other side for four hours.

Commissioner Geiger: Go ahead, Mr. Turner. Answer the question. The objection to that question is overruled.

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[fol. 1715] Mr. Turner: I don't see what good the statute does me if this case can't be conducted by the attorneys.

(Question read.)

A. No, sir.

Q. Directing your attention to the questions asked you by Judge Geiger as to where this difference in value comes between the time that it was originally leased from the farmer or owner of the ground and June 30th, 1929, state whether or not there is any analogy between that situation and the ordinary allotment situation where a real estate man goes out and buys up some farms and divides them up?

Mr. Huffman: Oh, we object to that.

Mr. Davies: Not proper re-direct examination.

Mr. Turner: I claim it is proper re-direct examination of Commissioner Geiger's question.

Mr. Huffman: Not only that but it is not competent.

Commissioner Geiger: Objection overruled and exceptions noted.

(Question read.)

Q. Into city lots?

Mr. Huffman: There is no comparison.

Commissioner Geiger: Let him answer and then you can cross examine him afterwards.

Mr. Huffman: Well, we object to it.

Commissioner Geiger: He may answer. Go ahead and answer it or say you can't.

The Witness: I would rather not answer.

Mr. Turner: Like selling a man a lot out in a cornfield; that was the situation that I wanted to call to your attention.

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[fol. 1716] Mr. Huffman: And we would want to follow it up by asking if the farmer wouldn't know that the city was going out there.

Mr. Turner: You would have to take into consideration how long it will take the city to get there.

Commissioner Geiger: All right, gentlemen, one at a time. Ask the witness the question and the witness will answer it.

Q. Was there any market for natural gas leases in Ohio on or about the 30th day of June, 1929?

Mr. Huffman: We object.

Mr. Davies: Unless they indicate it was comparable to the leaseholds in question here in size and quality and production, and sand.

Commissioner Geiger: Well, I think you can safely overrule your objection on this premise; the testimony has been that the acreage now under discussion extends from the river to the lake all through the eastern Ohio Gas Territory, and we can safely assume if there was any market it was in that territory. Go ahead.

Mr. Huffman: Exception.

The Witness: There was a market for acreage of that amount at that time.

Q. You were asked if you knew of any sales in the immediate past, and were limited in your answer to the size of the holdings of the Ohio Fuel Gas Company; now I ask you to tell the Commission of any sales that you know of gas leaseholds in Ohio?

Mr. Davies: We object to the question.

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[fol. 1717] Commissioner Geiger: I think you would have to limit it to that territory.

Mr. Turner: Oh, that territory of the Clinton sand that you have on the map there.

Mr. Davies: We object unless the question is limited in time.

Mr. Turner: I am asking about the same time you asked about.

Mr. Huffman: Unless you bring the limits of the market to which you were testifying to the limits of the territory which you are considering, it amounts to nothing.

Commissioner Geiger: He is asking a question and he may answer, and you may cross examine on it when the time comes.

Mr. Huffman: Exception.

Commissioner Geiger: Go ahead and answer the question.

The Witness: Yes, I know of a sale that was made since 1929 quite a large sale right in your territory in Summit and Stark Counties.

Mr. Davies: We would object as being since the time he has made his appraisement in this case. It couldn't have affected his judgment.

Mr. Huffman: It couldn't have been based on those transactions.

Commissioner Geiger: Within what time of 1929 was it and how close to it?

Mr. Turner: Wait a minute before you pass upon it. I put down here, "Do you know of any sale in the immediate past"; that is the cross-examination question upon which I

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[fol. 1718] I am attempting to ask a re-direct examination question.

Mr. Davies: June 30th, 1929.

Mr. Turner: Oh, no, I put it down here. There is no question in my mind about it at all.

Commissioner Geiger: Well, if he asked the immediate past in cross-examination, you have a right to ask it. Go ahead.

The Witness: In the immediate past, yes; but the property that I refer to is the property in Summit and Stark that Sam Brendle sold to the Ohio Gas Company.

Q. How recently?

A. Six or seven months ago.

Q. Do you know what he got for the operated acreage?

Mr. Davies: We object.

Commissioner Geiger: Overruled.

Mr. Huffman: It couldn't have had any effect upon the judgment of this witness in 1929.

Mr. Turner: Then why did you ask him the questions?

Commissioner Geiger: You opened the door, I think.

Mr. Huffman: Mr. Davies has stated that his reference to the immediate past referred to the immediate past of June 30th, 1929.

Commissioner Geiger: Well, he didn't so state it, so we will not take time to go over it.

(Question read.)

Mr. Davies: We object to the question as not re-direct examination.

Commissioner Geiger: Overruled and exceptions will be noted.

Mr. Huffman: Note the exceptions.

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[fol. 1719] Q. Go ahead.

A. He got in the neighborhood of two million and a half dollars, in addition to the cost of his operation.

Q. For how many acres?

A. Something like 21,000.

Q. How many were what we classed here as No. 1?

A. The majority of that acreage would come in under class 2.

Q. Class 2?

A. Yes, the majority of it. I can't exactly tell you the number of acres in No. 1. It was all contiguous and some of it was operated and some of it not.

By Commissioner Geiger:

Q. Well, let me ask you, exclusive or inclusive of improvements?

A. Exclusive of improvements.

By Mr. Turner:

Q. Now, do you know of any other sales in the immediate past?

Mr. Davies: Same objection and save our exception.

The Witness: Oh, I have knowledge of these sales that have been made that the other witnesses have testified to, of course.

Mr. Huffman: It is all pure hearsay; we object to it.

Mr. Turner: I don't know how we can get a witness to answer a question without an interruption.

Mr. Huffman: Confine him to questions within his knowledge and not to hearsay.

Mr. Turner: He did. If you would listen instead of talking you would get it.

Commissioner Geiger: Wait, you ask a question and you make your objection to it and we will pass upon it and when the court passes the witness will answer, and then we will get along better.

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[fol. 1720] Mr. Turner: Thank God. Now, what was my last question?

(Question read.)

Q. Something was said yesterday about William Hunter Atha's leaseholds over in Muskingum County. Do you know anything about their valuations?

A. I am associated with a party who has been dickering to purchase the acreage, and wells that he has over there. I think we made them an offer on them.

Q. What?

Mr. Huffman: We object; absolutely speculative, incompetent, any way you can consider it.

Commissioner Geiger: An offered price that they made, even though it be refused, will show that somebody thought it was worth that much, wouldn't it?

Mr. Huffman: Do you think so?

Commissioner Geiger: Not an offer of a man that says, "I want so much for it," and nobody buys it. But as I understand it, he says he made an offer of so much for it which was not accepted.

Mr. Turner: Yes, sir.

Commissioner Geiger. All right, what about it?

Mr. Davies: Save our exception—I thought the judge had decided it.

Commissioner Geiger: The Commission is of the opinion that the testimony is not competent, and hence the objection will be sustained and exceptions noted.

Mr. Turner: Note an exception. We expect the witness, if permitted to answer, to say——

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Commissioner Geiger: I suppose we should close both [fol. 1721] our ears.

Mr. Turner: I don't care whether you do or not. I want it in the record.

The Witness: He asked 250 and we offered him $200.

Q. For how many acres?
A. About 7000, I believe, in all.
Q. What portion of it is what would be No. 1 here?
A. About 12 or 1300 acres.
Q. What No. 2 here?
A. The balance there.
Q. The balance?
A. Yes.
Q. When was that offer made and refused?
A. Within the last three months.

Commissioner Geiger: It seems all to have gotten in the record. Is there a motion to strike out or not?

Mr. Huffman: Yes, we move to strike it out.

Commissioner Geiger: The motion is sustained and exceptions noted.

Mr. Turner: Note an exception, and we will dictate in the record what we expect the witness to answer if permitted. Now, if you are going to get up on your hind legs all the time, all right, but do it after I finish one sentence, please; just one sentence.

Q. Do you know of the Benedum-Trees Oil Company?

A. Yes, sir.

Q. Is the Benedum-Trees Oil Company a responsible company?

A. Yes, sir.

Q. Where do they stand in the industry?

A. Very high.

Q. In your opinion as a gas man of 40 years' experience, what do you say of this property of the Ohio Fuel Gas

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[fol. 1722] Company that you valued is used and useful for the purposes of furnishing gas by the Ohio Fuel Company?

Mr. Huffman: We object to that for the same reason as yesterday, that opposing counsel is still attempting to put in his case in chief.

Commissioner Geiger: Well, there is a very much different reason that would appeal to me. This gentleman has testified to 40 years' experience in buying and selling and drilling gas wells. He has not testified anything about his experience in transporting gas and distributing gases to retail cities, or for domestic purposes, and that is a very much different situation. He might guess at it, of course, but you haven't qualified him on that, Mr. Turner.

Mr. Turner: I understood Mr. Davies to qualify him.

Mr. Davies: No, indeed, I didn't.

Mr. Turner: Well, you did.

Q. Have you been in the public utility business?

Mr. Huffman: What is your ruling on that?

Commissioner Geiger: Let him qualify him if he wants to.

Commissioner Geiger: If you are going to follow this qualifying with a question——

Mr. Turner: If I get a chance I will.

Chairman Hopple: This witness, if my memory serves me correctly, has said that he has utility experience as well as producing experience.

Mr. Turner: Sure.

Chairman Hopple: I think we are all wasting a lot of valuable time. I don't think it is necessary to qualify him

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[fol. 1723] now, unless your minds don't serve you as mine does.

Mr. Davies: If the Commission please, wasn't this the witness——

Chairman Hopple: That was another witness.

Mr. Davies: That said utility work was an incident; wasn't this the witness that said that?

Chairman Hopple: I don't have that recollection.

Mr. Davies: Well, I appeal to the record. That is my recollection of it.

Chairman Hopple: Well, go ahead, Mr. Turner, and ask him some questions.

Mr. Turner: Qualify him?

Chairman Hopple: Yes, in a limited way.

Q. Have you been in the utility business of furnishing natural gas to consumers?

A. We have now in our company something over five or 6000 consumers.

Q. Domestic consumers?

A. Domestic consumers.

Q. And you so testified this morning, did you not?

A. I did.

Q. And how long have you been engaged in the utility business supplying gas to domestic consumers?

A. Well, I have been 27 years in this company or 28, and we have always been supplying the customers that long.

Mr. Turner: Now, what was the question that I started to ask him?

Q. Oh yes. Now, to go back to the question that I asked a while ago; how much of this acreage that you have appraised for the Ohio Fuel Gas Company would you say was used and useful in the business of supplying natural gas to consumers throughout Ohio.

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[fol. 1724] Mr. Huffman: We still object to the matter of qualification. We don't believe the witness has answered the question to show a qualification for an answer of this

sort, whether he directed the supply or had any knowledge of the management.

Commissioner Geiger: The objection is overruled, and exceptions.

Mr. Turner: He is only the president of the company.

The Witness: I will answer that by stating that I know the maximum requirements of the Ohio Fuel to supply their customers in this territory, and I think that if I were running the company I would want all of the acreage that they have to protect these consumers when they are required to put out over 300,000,000 cubic feet a day at times.

Q. I have gotten somewhat confused in our arguments back and forth, and I have forgotten whether I asked you whether or not in your opinion these gas leases could have been sold on or about the 30th day of June 1930?

Mr. Huffman: We object to that.

Q. Or 1929?

A. I think I stated——

Mr. Huffman: We object to that.

The Witness: I think I stated that, didn't I,

Q. Answer the question.

Mr. Davies: Exception.

The Witness: If this acreage had been for sale it could have been sold, in my judgment.

Q. Do you know of any willing buyers for the leaseholds of the Ohio Fuel Gas Company? I am just asking yes or no; not who they are.

A. Well, I would have to answer that in this way that to

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[fol. 1725] my knowledge they have not been offered for sale, but, if they were, I know of willing buyers.

Mr. Turner: I think that is all.

Re-cross-examination.

By Mr. Davies:

Q. And what would such willing buyer expect to do with such acreage?

A. They would find a market for it.

Q. Find a market for it?

A. Yes.

Q. A market for the sale of the leaseholds or for the sale of the gas.

A. I assume the sale of the gas.

Q. They would hope to make a profit?

A. Sure.

Q. On the transaction, wouldn't they?

A. Yes, sir.

Q. And they would have to get a price accordingly, wouldn't they?

A. Yes, sir.

Q. Based upon what they paid for the leaseholds?

A. You are right.

Q. Where would such purchasers find a market for that gas outside of public utility in Ohio?

A. Outside of public utility, I assume——

Q. I mean——

Mr. Turner: No, don't stop him.

Mr. Davies: Well, I have got a right to correct my answer if I made a mistake, haven't I?

Mr. Turner: I can't beat that, John.

Q. All right, leave it stand as it is.

A. Outside of public utilities there would be quite a lot of industrial markets for gas, but on the way to some other market they could pick that up. I think there are better

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[fol. 1726] markets at a higher price farther on.

Q. There is no out of utility market for that consumption in Ohio now, is there?

A. They could use all of that amount of gas if the price were right in your Youngstown district.

Q. If the price were right?

A. Yes, but you would have to compete with other fuels in that section. Now, as you go farther north you will find a high price. For instance our people at one of their plants are paying 60 cents for their industrial gas now.

Q. And there are many plants that are getting industrial gas for much less than that, aren't there?

A. In Ohio?

Q. Yes.

A. Something less than that, yes.

Q. How much less?

A. Well, I know lots of them that are paying 45 cents for industrial gas.

Q. Do you know some of them that are paying even less than that?

A. I don't know in Ohio. I know there are some paying more than that.

Q. What did you say the price was that was sold to potteries in Ohio this morning?

A. I didn't say what the price was only to the one pottery down there. That was 25 cents from a couple of wells; but if you go out in Ohio along the Ohio valley you will find potteries paying about 60 cents for their gas.

Q. What portion of your present Carnegie plant is used for domestic service?

A. At the present time?

Q. Yes.

A. There is about 30 per cent. of it now, but we are not using only a part of that 30 percent, perhaps 25 percent, of that is going to other utilities.

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[fol. 1727] Q. 25 per cent of that 30 per cent?

A. Yes.

Q. Is being furnished to other——

A. Other utilities.

Q. Your experience then with distributing gas to consumers in a domestic way——

A. Well, we distribute quite a little bit of gas through the town of Munhall and out through Lincoln Place, back at Homestead.

Q. Have you ever had a field as large as Columbus for that purpose?

A. Not as a domestic business.

Q. You have never had a field in any manner comparable to the size of the field of the Ohio Fuel Gas Company for domestic purposes?

A. Not for domestic. We handle as much gas, however, as the Ohio Fuel does, in industrial and domestic.

Q. But you sell most of your industrial to affiliated Carnegie companies, do you not?

A. Yes, sir.

Q. Practically in the family, isn't it?

A. Yes, sir.

Q. So that, when you make a statement here with reference to this subject of what is used and useful, it is not experience in comparable sized enterprises, is it?

A. Well, I think I am familiar with that feature of it, with the knowledge that I have of cities as large as this or larger, where other companies are supplying gas, and we work pretty close with them because we sometimes help them out, furnishing them gas in emergencies.

Q. So you are in pretty close touch with them?

A. Yes, sir.

Q. And you answer then pretty largely generally as a gas man, and from the standpoint of your observation other public utility companies follow about that same practice?

A. Yes.

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[fol. 1728] Q. Is that right?

A. Yes, sir.

Q. But do you have in mind also that the Ohio Fuel Gas Company is constantly surrendering leaseholds, do you?

A. I assume that they are.

Q. You realize that——

A. I am not advised fully about that, but there is no gas company but what has a certain amount of territory that is tested out, and then surrenders it and possibly takes up other acreage.

Q. You realize that the record shows here that they have surrendered over 700,000 acres in '27, '28 and '29?

A. No, I didn't have that information.

Q. And in answering the question about used and useful, did you take into consideration the fact that the Ohio Fuel Gas Company gets a large supply of gas from West Virginia and Kentucky?

A. Yes, I know that they get a large supply from West Virginia.

Q. And even with that source of supply you still make the same answer?

A. Yes, sir.

Q. And do you realize that they get a large quantity of gas from independent producers in Ohio aside from what they produce themselves on their own acreage?

A. Yes, sir.

Q. And you still make the same answer?
A. Yes, sir.

By Commissioner Geiger:

Q. Well now, just one matter there. Assume that the Ohio Fuel Gas Company had 700,000 acres in class No. 4, you would say that would be used and useful as I understand it, if it were to fall properly within class No. 4. Now, suppose you have surrendered its leases on 700,000 acres, does it thereby become non-used and useful, or is it still so far as the gas in the ground—we are not talking about 3242
[fol. 1729] the leaseholds—so far as the gas in the ground is concerned, used and useful? Let me put it in another way, cruder but more easily understood. Would a property which is used and useful because it is under lease become non-usable and non-useful by the surrendering of the lease; does that make the difference, just because it is under lease?

A. No. As I take it when we surrender leases there is a reason for that, and it might be that some other companies have drilled and have proven that, that it would not justify the company to hold that, and the only thing you ought to do is to get rid of that acreage; but at the same time that he is getting rid of that acreage there is always new acreage that some other party has picked up, where he gets in and gets some other acreage.

Q. But if it is demonstrated that there is not an appreciable chance of getting gas out of say a body of 700,000 acres which have been classed as Property No. 4 and the leases are allowed to lapse, then so far as that 700,000 acres on which the leases are allowed to lapse, that property is no longer used and useful in supplying gas?

A. No, sir.

Q. How?

A. It is not.

Q. It is not. So the fact that it is under lease is the fact that makes it used and useful; is that so?

A. Yes.

Commissioner Geiger: Well, all right.

By Mr. Turner:

Q. Would it be good business for the Ohio Fuel Gas Company to surrender 700,000 acres of No. 4 leaseholds?

A. Not unless it had been tested and from the test showed that the acreage was not likely looking gas territory. That would be my judgment in the matter.

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[fol. 1730] Q. Mr. Davies asked you about markets, and I want to have you assume that the gas found upon this property could be transported out of the state of Ohio. Is the property so located that it would be adapted to supply the city of Detroit, Michigan?

A. It is.

Q. Is it so located that it would be adapted to supply the city of Pittsburgh?

A. Yes, sir.

Q. Is it so adapted that it would be able to supply the city of Buffalo, New York?

A. Yes, sir.

Q. Is it so adapted that it could be supplied to any of the Atlantic seaboard north of Richmond, Virginia?

A. Yes, sir, I think that in a short time it could be carried clear through over to the New Jersey coast.

Q. Do you know that the Columbia System now has pipe lines to the New Jersey Coast or approximately there?

A. Approximately there, yes, sir.

By Commissioner Bricker:

Q. Do you know what the gate rate is at the city of Washington?

A. I can't recall. I believe I heard it at one time, but I don't recall now.

Q. Do you know what it is at Philadelphia?

A. No, not Philadelphia.

By Commissioner Geiger:

Q. Well, your answers to Mr. Turner's questions would seem to lead to the conclusion that to your mind the value of gas lands in Ohio and consequently the value of gas itself is dependent upon its proximity to a wide market for domestic and industrial purposes in the eastern part of the United States?

A. His questions may have assumed that, but it will be a short time until the entire network of pipe lines practically from the Gulf of Mexico to the lakes, possibly from

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[fol. 1731] the east to the west, will be connected up so that gas can be carried possibly any direction.

Q. Well, now, to your mind the value of gas so linked up and carried would depend upon the bidding of the people who wished to consume the gas; if Philadelphia is ready to pay more for gas than Columbus, Ohio is, then the gas should be diverted to Philadelphia and sold there; if Pittsburgh would pay more than Cincinnati, Pittsburgh gets it, and if New York City will pay more than any of the others and is connected up, then it should have the gas at the price it is willing to pay.

A. In making my calculations——

Q. Well, is that your idea of the future fixing of the value of gas?

A. I didn't make my valuation by fixing it that way. I based it on a value of the acreage, and figured it at the well, but with the view of someone coming in and carrying it through to a point where there was a market. Now, I do know of markets as high as 60 for industrial gas, which would not require the length of pipe line that is now in service in this country.

Mr. Davies: Mr. Turner broke in on me before I was through.

Mr. Turner: I beg pardon. I don't know where I am at today at all.

By Mr. Davies:

Q. How much operated territory do you have in your company?

A. 100,000 acres in round figures.

Q. How much unoperated?

A. Something over that, possibly 125,000.

Q. 125,000 acres?

A. Yes.

Q. 125,000 unoperated?

A. Yes.

Q. And about the same amount operated?

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[fol. 1732] A. About 100,000 operated.

Q. I understood you to say this forenoon that you felt justified in cancelling some of your unoperated because of the carrying charge and the general business conditions?

A. Yes; we are instructed to cut down our operating costs and the only way I could see to do it was to shove out some of that acreage and let some other company take it up if they wanted to.

Mr. Turner: We may have to do the same thing.

Q. And would public utility companies be justified in doing the same thing?

A. They are doing it to some extent.

Q. They are doing it quite considerably now, aren't they?

A. Yes.

Mr. Turner: We will have to do it, John, if the Commission says so.

By Commissioner Geiger:

Q. If all these acreages have as much gas in as you estimate that they have, and the annual consumption available is so much, isn't it the only real relief that you can get, has the company any business carrying and paying the annual charge for carrying acreage it has no fairly immediate prospective use for? Is that good business? Isn't is good business to say, "We will get rid of that charge? Why carry it"?

A. To protect ourselves, Judge, because if they don't you will find there is a lot of other people will pick it up and develop it, and they will have to come along and do like the East Ohio Gas Company did, pay them three million and a half dollars for territory that was laying under their noses. That was what happened there.

Q: That was the reason of this three million and a half

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[fol. 1733] dollar transaction that you spoke of; it wasn't a typical transaction, it was a distress purchase?

A. That may have had some bearing on it, but there were other people that offered more money for that property that he got from the Ohio, but he wanted to stay with the Standard, and they treated him right, and he let them have it.

Q. Well, let us assume one thing, and I will keep quiet possibly. Assuming that the company now under investigation has the right to serve the gas exclusively to the city of Columbus, that nobody else can come in because they have this territory and they have other territories through-

out the state of Ohio, well defined territory in which they serve the people under franchises with the different municipalities. Now, wouldn't good business indicate that all they should carry as a reserve would be what would properly preserve the territory that they have into which they are permitted to deliver gas?

Mr. Turner: I don't object to the question, Your Honor, but I do object to the statement that preceded it. I think the question is all right.

Commissioner Geiger: Well, we will take out the statement that preceded it. I don't know what it was, but take it out.

The Witness: I would like to answer that by stating that the No. 1 and No. 2 and No. 3 which amounts to over 700,000 acres might supply the Ohio Fuel for a large number of years, provided there was no other company taking any gas out, any other in that area that might affect it. However, in good business I believe that they should carry,

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[fol. 1734] and I think they could make money out of No. 4. A lot of it may not be any account. Some of it is underlayed with your Clinton sand; there is no question about that. It is deep drilling, however, and expensive, but they got in and got hold of that territory and I think that they used good judgment in it. Some of it is no account and they will naturally surrender it, but they should protect their consumers by keeping plenty of acreage when there is competitive companies operating in the same territory.

By Mr. Turner:

Q. You said something about some other companies taking the gas out. I want to know whether you meant then that the gas of the Ohio Fuel Gas Company, or as the illustration that you were giving, the East Ohio Company, would have been drained out had they not taken over the Brendle property? What I want to get at is whether or not in the surrendering of the No. 2 or 3 or 4 leaseholds there isn't a danger of draining your remaining territory?

A. Yes, sir.

Mr. Huffman: We object to that.

The Witness: That is a fact.

Mr. Huffman: The witness is not qualified to answer that. He hasn't testified as to the geology of that territory, the drainage or anything of that sort.

The Witness: Oh, yes, I can tell you something about the geology of it, I think, if you want me to.

3249

[fol. 1735] D. S. Webber further testified on cross-examination:

Q. Who approached you to become an appraiser in this case?

A. Why, someone, perhaps it was Mr. Mullen when he was connected with the case, or Don Wilson; I have forgotten. Some representative of the Ohio Fuel Gas Company.

Q. And what information was furnished to you for that purpose?

A. Why, I went to the offices of the Ohio Fuel Gas Company several times and went over the big maps, looked the territory over in general, and after the territory had been—I believe perhaps I talked some also about the classifications

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[fol. 1736] of the territory as 1, 2, 3 and 4 before it was made and then after it was made I went there and spent some time in going over the classifications, and in one or two instances suggested a few alterations, I believe, but not many.

Q. That was the classification that was submitted to you in map form?

A. Yes.

Q. Do you know who prepared that classification?

A. Why, I think Mr. Roth who is here.

Q. I see. Do I understand you to say that you made some corrections in the amount of the classifications that was submitted to you?

A. Well I think perhaps——

Q. Or was that before the information was finally submitted to you that you suggested the change?

A. It was before it was finally submitted to me to formulate my valuation; it was prior to that yes.

Q. Do you recall what occasion you had for correcting the classification that Mr. Roth had made?

A. I wouldn't use the word correcting; I just suggested as to perhaps—I can't remember; perhaps there was some territory that was mapped, that they had proposed as No. 3, perhaps I suggested part of that ought to go into No. 4 or perhaps some into No. 4 ought to go to No. 2 or something of that kind, after going over the maps.

Q. And that was prior to the time when it was finally submitted to you for consideration?

A. Yes, sir.

And then you accepted the classifications of 1, 2, 3 and 4 that was so submitted, and togther with the number of acres indicated in each classification?

A. I did.

Q. Is that true?

A. I did.

3251

[fol. 1737] Q. Now, what other information was submitted to you, Mr. Webber?

A. All the information that is in these books.

Q. There to your left, or right?

A. To my right, yes, sir.

Q. I call your attention to City's Exhibit No. 64 entitled "The Ohio Fuel Gas Company, summary of gas wells, recapitulation"; giving information by counties, and ask you if that information was furnished to you for purposes in connection with the appraisement?

A. It was.

Q. And if the detailed information that is thus summerized was submitted to you?

A. It was.

Q. I call your attention to City's Exhibit No. 63 entitled the Ohio Fuel Gas Company, summary of gas lands as of June 30, 1929, summarized by counties, and ask you if that information was furnished to you for the purposes of the appraisement?

A. It was.

Q. And if the detailed information in connection that was thus summarized was submitted to you?

A. It was.

Q. I call you attention to City's Exhibit No. 64 entitled "The Ohio Fuel Gas Company, summary of gas wells as of June 30, 1929, recapitulation," giving the information by

counties and ask you if that summary was submitted to you for the purpose of the appraisement?

A. It was.

Q. And was the detailed information thus summerized submitted to you?

A. It was.

Q. And that is the information that you were suggesting a little bit ago was contained in the books on the table at your right?

A. It is.

Q. Largely?

A. It is.

3252

[fol. 1738] Q. Do you know what method was used in making up this classification of 1, 2, 3 and 4?

A. Why, the operative territory was taken as No. 1, or a large portion of it, and the territory lying contiguous and intermingling with it was No. 2. No. 3 was the territory nearby and supposed to have been proven, in a large part, at least, as No. 3; and No. 4, territory that was leased from information that the officials had of a geological nature and otherwise as prospective territory.

Q. What do you mean in referring to No. 3 as being largely proven; was that the expression you used?

A. Yes.

Q. What do you mean by that?

A. Considering it proven from the standpoint of wells drilled on No. 1 by the Ohio Fuel Gas Company and wells drilled by other companies and by individuals.

Q. How do you draw the line between your No. 2 and your No. 3 classification?

A. To draw a line—I don't quite——

Q. Well, how do you distinguish; what distinguishing features do you use in making a distinction in your classifications of 2 and 3?

A. 2 and 1——

Q. 2 and 3.

A. Why 3 is farther removed from the producing territory.

Q. Yes.

A. And less proven.

Q. Are there any producing wells on No. 3?

A. No.

Q. Are there any producing wells on No. 2?

A. No; there wasn't at that time.

Q. Well, of course, I am speaking with reference to that time; you will understand that.

A. Yes.

Q. In connection with my questions. The only producing

[fol. 1739] wells are on No. 1?

A. That is all.

Q. Are there any dry holes on No. 2?

A. I think probably occasionally as well in the Clinton, sometimes in the shallow sand, but not disproving that there may be gas there at some other location on that particular tract. But I don't think there are but very few instances of that kind; as a matter of fact I don't recall any, but it may be. I wouldn't hesitate to put a tract of land into No. 2 if it had a dry hole on the south end if the north end looked good.

By Commissioner Geiger:

Q. Would you be willing to say what you mean by looked good?

A. From the operator's standpoint, wells that have been drilled, and that it looked very favorable as being capable of producing gas in paying quantities.

By Mr. Davies:

Q. Isn't there a considerable uncertainty with reference to the location of the gas in the ground?

A. In answer to that question I would say that it is generally in the oil business or gas business, it is considered a hazardous business; but from the history of past drilling in Ohio and even other states of the Union, it has been worked out in such a way that you can figure to almost a certainty the number of wells that you can get on territory that is known; known territory.

Q. What do you mean by known territory?

A. Territory that is outlined such as the territory that is outlined such as the territory represented on these maps. If you want me to go on with that——

Q. Yes, go ahead.

A. I don't think there is any question that you can safely figure that on No. 2 acreage that 35 per cent of every well

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[fol. 1740] that is drilled will produce gas if it is followed up intelligently. There may be things that will occur between now and the time of drilling that will alter your opinion that you might have now, that would cause you to move on or away from some piece of territory that looks good now, but that causes you to move on to some piece of No. 4 that would bring it in the No. 2 class. If that is followed up intelligently, over my experience, for I have been out and in the state for over 20 years, and I have been with it for 18 years with the Ohio Fuel, I feel perfectly safe in saying 35 per cent of the wells drilled in No. 2 acres will produce gas in paying quantities.

Q. And two-thirds of the wells that you would drill would turn out to be dry holes; is that what you mean by that?

A. 35—I have got it wrong; 65 per cent will produce, 35 per cent dry. I will reverse that.

Q. 35 per cent dry?

A. On No. 2 acres that I have spoken about. I used 65 on No. 3 to be safe, and I think I was very conservative.

Q. And you have that judgment without the drilling of any wells in that particular territory?

A. Yes, sir.

Q. Well, Mr. Webber, there is no dependable standard by which you can come to that conclusion, is there?

A. Yes, I think there is.

Q. What is there?

A. The operations that have been carried on for over 25 years in this state, and the record of those wells, records that I have preserved of our operations during certain years, the capacity of the wells, the open flow capacity, the amounts that they have delivered in a ten year period of measured gas, and data that I have collected from other

3255

[fol. 1741] sources that is generally in use by all gas men.

Q. And that information was coming from producing territory?

A. From territory that is taken up by the explorers and turned in to producing territory.

Q. Then how do you account for so much surrendered territory in connection with gas leaseholds?

A. In connection with surrendered territory, I know of times when we have surrendered territory that we felt very confident was gas producing territory, and it was with great reluctance that it was surrendered.

Q. But you let it go, didn't you?

A. In order to reduce expenses, and then we made mistakes, because we took back territory and paid twice what we had been carrying it for.

Q. And then you would add a whole lot more territory at the same time that you would be surrendering territory would you?

A. You are constantly taking on territory; if you have seen some one go out wildcatting as we call it and open up a well, we are bound to go in there and try to get some territory to protect our interests.

Q. Then there is such a thing as wildcatting, is there, in connection with this?

A. Oh, yes, that is one of the large parts of the business.

Q. The different sands give different results in different locations, do they not?

A. On the same farm you will get different results from two wells, but that average was taken throughout the whole central Ohio Clinton sand area, and we have a pretty good average on that. But a well, in explanation of that I would say a well that you may drill on a farm of a hundred acres, will come in and 5,000,000 and a well on an adjoining farm

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[fol. 1742] have an open flow measurement of a million, in a period of ten years the million foot well may have put out just as much as the five million well. The sand immediately surrounding the opening is more porous and feeds out more rapidly, but as you get away from that opening it comes into the uniform sand and begins to come in regularly.

Q. And you will often times get the opposite result of that, don't you?

A. Oh, yes.

Q. Sure you do. In other words you have no certainty about the gas producing land until you have tested it as a matter of fact?

A. There is no absolute certainty in that or most anything, but I feel so certain about the statement I made as to

65 per cent of that territory that I wouldn't be afaid to back it with money.

By Commissioner Geiger:

Q. Just a minute while you are talking about that. You have 65 per cent of No. 2 you think is it?

A. I do.

Q. 35 per cent of No. 3?

A. Yes, sir.

Q. And what per cent of No. 4?

A. I didn't give that any number; I just lumped that sum off as only prospective as wildcat.

Commissioner Geiger: All right.

[fol. 1743] By Mr. Davies:

Q. Was there submitted to you also some 122 different types of lease forms?

A. Yes, sir.

Q. Did you examine those lease forms?

A. I looked over those exhibits, every one of them, and found them all the form of leases I would expect to find in a large flock of papers of that kind in almost any of the companies.

Q. Did you find many different provisions in those lease

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[fol. 1744] forms?

A. Some of them. They were all about the same, leased the land for the purpose of drilling for oil and gas for a certain period of years, certain acreage rental, certain gas well royalties and oil well royalties and there was extra language in there that I don't consider adding to or taking from the lease in any way. Different companies, different lease departments have their ideas as to the lease form to use.

Q. So that the early leases which were very simple in form, with very few conditions, were practically of no different value than the more limited lease forms with many conditions?

A. I don't think they are.

Q. You think not?

A. I don't think there is any difference in their value as leaseholds.

Q. If you had an individual lease offered to you today with a five year termination, with no right of renewal, and another leasehold of comparable ground territory for ten years with the same conditions, and no renewal, would you make any difference in the value of those two leases?

A. If the two tracts of land, one looked as favorable as the other, from a gas standpoint, and they were to be sold at the same price, I would take the one with the long term of years; but if there was very much price added to the five year lease, I would probably take it because in five years there ought to be something determined as to whether that is going to be worth anything or not.

Q. But there would be an element there?

A. Yes, sir.

Q. There would be?

A. Yes, sir.

Q. Well, what is the object and purpose then of putting 3258

[fol. 1745] in all these new conditions that we find in the more recent leases?

A. Why, it is an idea the head of the lease department may have. I adopted a good many of those clauses that you refer to here; I thought they were going to help us perhaps to avoid litigation or something of that kind, but I don't attach much value to it. It is getting the land under a lease under reasonable terms and conditions and operating it.

Q. So you don't think even those new conditions you have added into reflect anything on the value of the lease?

A. Not a thing.

Q. Well, referring now to such things as warranty of title——

A. Yes.

Q. And the right to be subrogated to mortgages?

A. And the offset well clause which you mention.

Q. Is the question of assurance of title with reference to a given leasehold where you are about to drill a well of any value?

A. Well, I don't know that is so much. There is some value, but a farmer generally tells you whether there is a mortgage—will if you ask him. And there is an implied warranty there, isn't there? But it is well enough to have that clause in, maybe, and sometimes I have thought that

we put too much into a lease, it handicaps the lessor, the man that is taking the lease from a farmer.

Q. You feel it makes the purchaser just a little bit more comfortable, is that right?

A. It is liable to handicap the lessor in dealing with the farmer; if the farmer submits it to some lawyer he may think you have written too much in there.

Q. Well, how much consideration then did you give to

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[fol. 1746] the leases by the various conditions and restrictions of the leases in making an appraisement of this leasehold property?

A. I consider them all in a general way.

Q. Just a general way. You found the leases generally did you, providing for what general terms, with reference to delayed rentals and with reference to royalties?

A. [redacted]ually $200.00 a gas well, a few one-eighth, some ba[redacted]n so much per million open flow and one-eighth of the oil. I think one clause said that for one-sixth of the oil, but I didn't give that any consideration; and usually I judge without having averaged it, I should judge that those would average around eight or ten years, the term of them; some five and ten, 15, 20 and as long thereafter—I examined that carefully to see if that clause was in there—as much longer thereafter as oil or gas is produced. There are a few leases there that haven't that clause, perhaps that have to be approved by the court. The court isn't inclined to give more than a ten year period.

Q. So then you consider these leases then as the result of your examination as being of about the ordinary run?

A. Yes, sir.

By Commissioner Geiger:

Q. What deferred payments did they mention, rental or whatever it is?

A. I think they averaged about 50 cents and a dollar. I think it averaged around 70 cents. I think I figured that out on some of them and made some inquiries about it, and I think it is along about 70 cents per acre per year.

[fol. 1747] By Mr. Davies;

Q. In connection with this gas acreage, sands are quite an essential quality, are they not?

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[fol. 1748] A. It is very important. You must have the sand or you don't get the gas.

Q. What are the principal sands that are invovled in connection with this appraisement?

A. Well, largely the Clinton sand. It is that sand I had in mind costly, although there are in the eastern part, southeastern part, there are several sands that produce including the Berea, and then the second Berea is a very important sand, though it doesn't cover much area. It produces down through Gallia, eastern part of Gallia and Meigs Counties, Athens and Morgan Counties.

Q. In connection with the consideration of the various types of leases you made no attempt to know how many acres was represented by each of them?

A. No, I didn't.

Q. Or did you make any attempt to locate the leases on the same especially?

A. Oh, no.

Q. To see what location was involved?

A. I didn't go into that, although I did say that before going into the valuation I went to their offices and the maps were unrolled for me, and I am quite familiar with the maps generally.

Q. Mr. Webber, what was the valuation that you put in per acre for class No. 1?

Commissioner Geiger: Put them right through.

The Witness: Shall I state the acres? No. 1 $39.34 per acre——

By Commissioner Geiger:

Q. Go slow, $39.34, how many acres?

A. 291,396.

Q. Total amount?

A. $11,473,717.

Q. O. K.

A. No. 2, 164——

Q. What is your price?

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[fol. 1749] Mr. Turner: He is giving the number of acres first.

The Witness: The price was $63.37 per acre.

Q. How much?

A. $63.37 per acre. The total amount was $10,440,300, the acres 164,739, for No. 3 acres; average per acre $33.60; total amount, $10,304,320. Total number of acres 312,651. No. 4, I gave an average of $3.00 per acre or $6,196,263; total acres of No. 4 $2,065,421. Average per acre of 1, 2 and 3 was $42.16. The average per acre for 1, 2, 3 and 4 was $13.62.

By Mr. Davies:

Q. Taking your classification No. 1, what factors did you use in that appraisement of that acreage?

A. I estimated that 65 per cent of that gas had been depleted.

Q. 65 per cent of the gas had been depleted?

A. Yes, sir.

Q. Just what do you mean by that?

A. Had been taken out.

Q. Out of the whole acreage?

A. Out of the No. 1——

Q. Or out of the wells——

A. Out of the No. 1 acreage.

Q. 65 per cent of No. 1 acreage had been depleted?

A. Had been depleted.

Q. And how did you arrive at that conclusion?

A. From average well pressure and going over——

Q. All those wells?

A. Yes, sir, taking their initial rock, present rock and drop and so forth.

Q. How much did you find that the present operating wells were depleted?

A. Well, that is the one I used. I think taken on an average they are depleted only about 60 per cent. I discounted that and gave it five to be on the safe side; called it 65.

3262

[fol. 1750] Mr. Turner: He means this territory. Are you asking about wells or territory?

Mr. Davies: I am asking about wells now.

The Witness: You asked me about the territory and I answered and then you asked me about the wells, and I tried to answer.

Mr. Turner: I am objecting to the wells. We haven't offered him on the wells; we are offering him on the leases.

Mr. Davies: Well, I am asking from his factors.

Mr. Turner: He hasn't said that was a factor.

Q. You said that one of the factors was the conclusion that you came to that 65 per cent of No. — territory was depleted; isn't that what you said?

A. Yes, that is the figure I used.

Mr. Turner: And I agree to that.

The Witness: In arriving at this valuation.

Q. Then I asked you how you arrived at that conclusion, did I not?

A. I believe you did, and I said from the records of the wells.

Q. Yes, how did you arrive at the record that the present wells are depleted 65 per cent?

Mr. Turner: He didn't say that.

Q. Well, what per cent do you say that the wells are depleted on No. 1?

Mr. Turner: That is what I am objecting to. Territory and wells are the different things.

The Witness: The wells as a whole will average 40 to 60 per cent depreciation as given there, about; but there are some of them on No. 1 territory that is depleted more than 3263

[fol. 1751] 60 per cent.

Q. How did you arrive at that conclusion?

A. At the conclusion that the ter-itory had been drained?

Q. Yes.

A. Estimated it from the records of the wells and from the knowledge of the field.

Q. Did you make figures on that, computations?

A. Certainly I did.

Q. Have you those computations?

A. No, I haven't. I went over a good many of those wells in various districts and tried to find how much the depletion

had been, how much it had fallen off in rock, and finally came to the conclusion that I was on the safe side in determining that they had been depleted to the extent—that the acreage had been depleted to the extent of 65 per cent.

Q. And did you conclude that that acreage is now fully covered by wells for the purpose of getting the gas out of it?

A. No, it is not yet; on an average, it is, I think 80 acres of the Clinton sand is about the average, but yet none of those wells are drilled in less than 80 and many of them control larger treats, so there is a lot of area can be drilled yet in No. 1 acreage.

Q. How much of that acreage is still subject to being drilled for gas?

A. I can't state that off hand, but there are a good many wells can be drilled on No. 1 acres that will have the initial rock pressure, and then if you should drill inside those old wells I feel you would find the same depleted rock pressure on all of that like some parts of Ashland County, Knox County, Licking and Fairfield County.

Q. What estimate did you make as to the gas content per

3264

[fol. 1752] acre of No. 1 originally?

A. I think the figures that have been used by the other gentleman at 4,000,000 per acre is very conservative.

Q. A very conservative figure of 4,000,000?

A. Yes, I didn't use a figure as high as that; I wanted to be——

Q. But you still feel that the 4,000,000 figure is conservative?

A. I think generally the Clinton sand has produced and this territory we are discussing will drill in excess of 4,000,000 cubic feet per acre.

Q. Now, how many acres of class No. 1 are still untapped for gas?

A. I can't say that; I am unable to say that.

Q. You wouldn't say that the untapped acreage has been depleted 60 per cent, would you?

A. I take the acres as a whole of No. 1 and I won't say that I am right, but I used that in calculating the gas remaining, the value of the acres as being the amount having been taken out as 65 per cent—I may be away off on that, but after coming here and hearing the others testify, I

think am away high on that, perhaps, but I would rather be high than have it appear I am low. There are a great many acres of that 291,000, there are a great many acres upon which you will find Clinton sand wells that will have a rock pressure of eight or ten hundred pounds. I have seen wells drilled a half mile from a well that was down to 150 pounds and come in with a rock pressure of 900 pounds, evidencing that the pool from which the last well was found in had not been drained by the other pool. Then again you will find a large area that hasn't been drilled, perhaps—I know of one instance of probably a mile in diameter that was surrounded by wells that had produced from two to

3265

[fol. 1753] five million, and I felt that we were jusitified in drilling in the center there and we would get a well. We did, but we found the rock pressure of the new well was the same as the surrounding wells, only about 200 pounds; so that was evidenced this particular area had been drilled. Yet that will not hold out, and no one that I know of will commit themselves as to the area of acres——

Q. That is a good example of the uncertainty of the thing, isn't it?

By Commissioner Geiger:

Q. May I ask one question there from a gentleman that seems to know a great deal about it? Suppose wells have run down to a considerable degree in their rock pressure, and you should plug them up and let them rest for a while. Will they accumulate any additional pressure from adjacent fields that are not connected up with other wells?

A. I have not seen that done. I have seen it tested and never saw it respond. Yet I have heard——

Q. That is the wells you would say then tap an area that is so sealed off from any other area that it wouldn't get any pressure out of the adjacent area which has been directly drilled by another well?

A. That seems to be the case, Judge.

Q. Even though there be 900 pressure underground and the adjacent territory and only be 150, the 900 pounds will not break through and fill up that 150 poundss?

A. No. We have found this where we found this nearby initial pressure, and the only way I can fix that in my mind is that there was a new lens had walled off from these

others. They went into it and that happened to be the East Ohio Gas Company, and we were not in there and we regret it. It seems to me that indicated my tho*guth* as a

3266

[fol. 1754] good many others think that there is a series of lenses in a great big bottom of the ocean.

Q. That each lens is separate from the other and you must hit a lens in order to get gas?

A. Yes; particularly so there may be a lens that bulged out here and then narrows down here in a small channel and goes over into another larger lens. The drilling would seem to indicate that sometimes; and there may be holes; I don't know.

By Mr. Davies:

Q. I still don't get quite clear in my mind, Mr. Webber, the results that you have indicated with reference to territory No. 1. You, I think, said that there are acreages, the quantity of which you are not willing to state——

A. Not able to state.

Q. Not able to state, correct; still probably contain the full average gas content in No. 1?

A. I think there are.

Q. And you say that from your observations and study the producing wells on No. 1 are adopted to the extent of 60 per cent?

A. The average.

Commissioner Geiger: He didn't say that. He said the average was depleted.

Mr. Davies: Now, wait a minute, if the Court please. I want to see if I am right.

Q. You said that, did you, that your study of the wells——

A. I believe the record shows and the record submitted here, I believe shows 60 per cent as the average.

Q. Yes, the average of the producing wells on No. 1 are depleted to the extent of 60 per cent?

A. That is as I have the figures in mind, yes, sir.

Q. Well, then how do you then say that all of acreage

3267

[fol. 1755] No. 1 is depleted to the extent of 60 per cent; wouldn't it be 60 per cent plus?

A. I said 65 per cent.

Q. 65 per cent?

A. I added 5 per cent.

Q. You add 5 per cent then for the untapped undrilled territory.

A. Yes, sir, so that I may be on the safe side. I examined the several acreages of wells, in the old field, and found some of them were not even drained 60; some of them had been drained 60 per cent.

Q. Yes, and some of them were new wells?

A. And some of them new. Then I tried to put those together and arrive at a fair amount of depletion in No. 1 acres, and I took it as 65 per cent and I think that is very much against the company.

Q. Then what did you compute or estimate the gas content per acre of No. 1 to be in forming your judgment?

A. I can't remember that; I don't know that I used that.

Q. Well, you did consider the gas content?

A. Of course I did in arriving at what those acres would sell for to somebody, but I don't think in the final estimate I took any amount of those acres and figured it as to the volume of gas to put a price on it; I found about what the acres in my mind contained, and then what would that be worth in the open market.

Q. Yes; and you found it to contain as I understand you now on No. 1 acreage, 65 per cent, of some given figure. What was that given figure?

A. I don't remember.

Q. You don't remember?

A. I don't remember.

By Commissioner Geiger:

Q. You have testified that 4,000,000 cubic feet per acre was conservative?

A. Was conservative; but I didn't use a figure as high as that in arriving at 65 per cent. I cut down; I wanted to be safe.

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[fol. 1756] By Mr. Davies:

Now, in making your values per acre, how did you convert that information into dollars?

A. Why, I analyzed the properties in the way that I have stated, and then I view them from my standpoint as a whole, and what I could go to a willing buyer and offer them for and receive from him for them without any question of a doubt. I arrived at this valuation of $38,614,600.

Q. You are talking now about the total acreage?

A. Total acreage.

Q. I am confining my question now; if I may, to acreage No. 1.

A. I couldn't put that value on acres No. 1 alone.

Q. You would have to have it in connection with these other acres, particularly 2 and 3, and you would have to have 3 in connection with 1 and 2 and you would have to have 2 in connection with 1 and 3 to give it this value.

Q. To give it that value?

A. Yes, sir. I think so.

Q. What will be the result if you separate it?

A. I don't think you can sell No. 1 for much of anything without No. 2.

Q. You don't.

A. And No. 3 would add much more value.

Q. And could you sell No. 2 without No. 3?

A. Not at the figures that I have given you.

Q. Yes.

A. These values are fixed as a whole, particularly as to 1, 2 and 3.

Q. Well, how did you convert the estimate gas content as you suggested on No. 1, 2 and 3 into the acreage prices that you have submitted?

A. As I stated, after taking them together, and would I feel perfectly safe in offering them to a willing buyer, and expect to receive that price.

Q. What would govern a possible buyer in giving you that

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[fol. 1757] price for the acreage?

A. We would have these analyzed by such men as have testified here today, unless he was able to analyze them himself. Their figures would be submitted and he would decide as to whether he wanted to buy them at that price or not, and I could feel perfectly confident a willing buyer would accept those figures without any hesitation.

Q. And what would a willing buyer do with that property after he had got it at those figures?

A. I would expect that he would intent to operate for gas.

Q. He would expect to make a profit on his deal?

A. Yes, sir.

Q. And what would his profit depend upon; the price that he could get for the gas?

A. On the volume of gas that was there, and of course the amount that he received for that gas.

Q. The volume of gas that he would get on that acreage and the price that he could get for it?

A. Yes, sir.

Q. In the market?

A. Yes, sir.

By Commissioner Geiger:

Q. You appreciate the difficulty that we are confronted with at least apparently, and you estimate the value of the acreage by having some general knowledge of how much you could sell that gas for; we have got to say how much you sell that gas for and turn around and find out how much his property is worth producing gas. It is a circle there that we can't quite complete.

A. I appreciate it, Judge, and I have had the same difficulty with bankers. You ask what gas is worth in the ground; I can't tell you. I have been asked that a great many times. I have had the same difficulty with some very good bankers. I can't fix a price; I don't know how you

3270

[fol. 1758] are going to fix a price of gas in the ground, but we can fix it from an acreage standpoint because we know it is sold for that. We know acres have sold at a much higher price than I have put in this, in small lots; and investors in 1929 were looking for these big ones. I would have been delighted to have had that as a $38,000,000 proposition. They wanted to look at things of five million or better. I have inquiries now for territories of good size, getting them ready for later offers.

Q. Of course, the price you can get for acreage depends upon the money market and business and everything else; what you might have got in 1929, you couldn't get now?

A. You couldn't today, but we hope it is coming back.

By Commissioner Geiger:

Q. Let me ask you this; see if we can break through this thing that is rather crowding our view about it. You estimate the value of these various acreages by the value and amount of what you can get for it in the market.

A. Yes, sir.

Q. But it must be based upon their probability of producing gas, which is shown by the test wells there now. Now, you would say the more gas there is in the acreage the more value there is to the leases?

A. No question about that.

Q. Now, is there any point where you come to the place where there is so much gas in the ground that it is a drug on the market and you can't use, it and the value of your property goes down instead of going up?

A. That time hasn't arrived yet.

Q. Well, it has arrived in oil, hasn't it?

A. Yes.

Q. In oi-; you are just drenched with oil in the west; don't know what to do with it. Oil prices have gone down, I

3271

[fol. 1759] understand from my friend, Will Rogers; they struck a big gas well in Oklahoma City and just swamped——

Mr. Turner: Oil.

The Witness: He says it is cheaper to strike a dry hole than oil.

Q. Is there any possibility we are approaching that in these very rich gas fields?

A. No, sir. There is a wonderful market in the east of industrial gas, and domestic gas, but I have in mind industrial gas. I have seen some figures on the northeastern cities, Rochester, New York—I don't like to quote the figure of the amount of gas they would undoubtedly use there under competition with coal; I think more than this territory would supply that one city. And there is no trouble to finance a pipe line if you can show them your gas and a market—wasn't in 1929, would be today.

By Mr. Davies:

—. And yet there are many wells in Ohio plugged up aren't there?

A. Do you mean closed in, not used?

Q. Closed in, I expect that is what you use.

A. I understand that under the present conditions, curtailment of market, that they have been unable to market all gas this past year; but I don't think there is any great amount of that because there is no great amount of gas being sold and produced in Ohio by individuals, no great amount.

Q. But there are a great many people that you call independent producers that have wells who have not been able to market their gas in Ohio?

A. They have not been able in the past year, I understand to market all their gas.

Q. Well, wasn't that so back of the past year, there

3272

[fol. 1760] were such wells that——

A. Not in the winter time.

Q. That the companies that were furnishing the gas to consumers were not taking——

A. Not in the winter time while I had any connection with the business. We were glad to get all the gas we could the winter months. Of course in the summer months——

Commissioner Geiger: Well, this is a very interesting witness and we would like to listen to him longer; but we will adjourn until tomorrow morning. We will adjourn until ten o'clock tomorrow morning.

3273

[fol. 1761] Cross-examination.

By Mr. Davies:

The Witness: Mr. Davies, I would like to make an explanation, if you please.

Q. Certainly.

A. As to my testimony with reference to the depletion of No. 1 acreage which I said I found or estimated to be about 65 per cent, and I said in my testimony, or I meant to say, that I arrived at that estimate from taking the drop in the pressure in the wells, but I did not mean to testify that I found that the wells had depreciated to the extent of 65 per cent.

Commissioner Geiger: Your present statement is that the acreage in your judgment has depreciated by depletion 3274
[fol. 1762] 65 per cent?

The Witness: Yes, sir, No. 1.

Commissioner Geiger: The wells themselves decreased in flowage 60 per cent?

The Witness: Not in flowage but in rock pressure.

Commissioner Geiger: All right; 65 per cent for field and 60 per cent wells—rock pressure.

The Witness: The rock pressure would indicate about a 60 per cent drop in the wells as indicated by the pressure in the wells; it would indicate about a 60 per cent drop.

Commissioner Geiger: As indicated by the rock pressure?

The Witness: Yes, sir.

By Mr. Davies:

Q. See if I understand you now; that your examination of the wells indicates that the rock pressure of the wells has gone down to the extent of 60 percent from its initial rock pressure?

The Witness: The rock pressure of the field as indicated by the rock pressure of the wells has dropped to the extent of about 60 per cent, but the depletion of the acres as to the amount of gas originally in the rock I gave as about 65 percent.

Q. In other words you are inclined to make the depletion greater than the rock pressure indicates?

A. I gave that as a discount figure that I might be on the safe side.

Q. Do you compare that decline in rock pressure to any other factor in arriving at that conclusion?

A. Well——

Q. In other words, do you take the uniform decline in production in connection with that decline in rock pressure in arriving at that conclusion?

A. Well, I used those figures and used my general knowl- 3275
[fol. 1763] edge of the field and used everything that I could command to arrive at that figure.

Commissioner Geiger: Let me ask you something there; I don't like to take too much time, but my understanding

is clouded to some extent. You do not mean to intimate that the production of the wells has declined 60 percent?

The Witness: No, sir.

Commissioner Geiger: You mean that the gas in the acreage has been exhausted to the extent of 65 percent?

A. That is what I mean, yes.

Commissioner Geiger: All right; the wells may be—each individual well may by the use of pumps or any other way produce practically as much at it did when it had a higher rock pressure?

The Witness: It may.

Commissioner Geiger: It has nothing to do with how much gas is still in the ground?

The Witness: Not necessarily.

Commissioner Geiger: All right; go ahead.

By Mr. Davies:

Q. You were speaking about the time we adjourned yesterday afternoon with reference to the general market; you mentioned Pittsburgh——

A. No, I don't think I mentioned Pittsburgh.

Q. Pittsburgh is now occupied?

A. I presume it is.

Q. And you did mention Buffalo?

A. I mentioned Buffalo and Rochester and eastern towns.

Q. The Iroquis Company has been in Buffalo for sometime?

A. Yes, sir.

Q. And is now conducting a rate case?

3276

[fol. 1764] A. I understand so.

Q. A gas rate case?

A. Yes.

Q. And the several large markets, Philadelphia and Washington and Baltimore, are now being furnished, are they?

A. I cannot say, Mr. Davies.

Q. You know that they are having at least pipe lines extended to those places, do you not?

A. From general hearsay.

Q. From the West Virginia fields?

A. I could not say that I know whether the gas is going—where it is being transported to those towns from; I don't know.

Q. If so, those markets are being supplied, aren't they?

A. I had in mind when I mentioned Buffalo and Rochester and those towns industrial markets; Rochester I believe is being supplied with artificial gas, manufactured gas, but I had in mind—I think there would probably be a large industrial market at Buffalo that the Iroquois Company is not able to supply.

Q. Do you know that there is; you say "probably".

A. I don't know about Buffalo but I have seen a survey of Rochester and several other eastern towns.

Q. And these various companies do supply industrially as well as domestically the companies in Pittsburgh and the companies in Buffalo and these other large communities?

A. Under certain reservations, with the understanding that they may disconnect the industrial gas at any time during the peak load weather, and then they get usually the same price for industrial gas that they do for domestic gas, and often the industrial consumer cannot afford to pay as high a price as they are receiving from domestic in competition with other fuels.

3277

[fol. 1765] Q. But do you know whether they are in regulated fields in Pennsylvania and in New York?

A. Regulated by the Commission, do you mean?

Q. Yes.

A. Oh, yes.

Q. They are in regulated fields?

A. Yes.

Q. Just as Ohio is a regulated field?

A. Yes, sir.

Q. And you spoke about Detroit——

A. I did not mention Detroit; I think that was Mr. Meals.

Q. Mr. Meals mentioned Detroit?

A. I don't think I mentioned Detroit.

Q. Well, do you know as a matter of fact that there is now a projected line to Detroit from the Texas field?

A. I hear so, yes, sir.

Q. Well, as a matter of fact, Mr. Webber, there is an immense amount of gas in Texas and Oklahoma, more than the people down there know what to do with, isn't there?

A. I would not say that there is more than they know what to do with; there is a lot of gas in Texas that I think

eventually will find a market; the markets in the east are unlimited.

Q. There are no markets there for it?

A. I don't suppose there is a market in Texas for all the gas that is being produced there.

Q. And that is the incentive for these lines that are coming up now from those fields into the northern territory?

A. Yes, sir.

Q. How much danger is there of competition between various companies in the price of natural gas in the fields around here?

A. I cannot say.

Q. There is a prospect of it, isn't there?

3278

[fol. 1766] A. Of being——

Q. Of the competition in the price of gas itself?

A. Oh, I don't think there is any danger of that, considering the distance to be transported and the limited amount that can be transported through the projected lines.

Q. The limited amount, you say?

A. Yes.

Q. That can be transported?

A. Yes, sir.

Q. You would not think much danger of a competition in the gas field itself in these markets?

A. In these markets in the east I would not consider there is danger of very close competition.

Commissioner Geiger: Do you think that ultimately the price of gas delivered to either an industrial or domestic consumer should be largely guided by the competition arising between the use of gas as opposed to other means of heating or—well, of heating?

The Witness: Unquestionably.

Commissioner Geiger: Coal and oil would be the two prominent ones?

The Witness: Unquestionably, Judge, yes, sir.

Commissioner Geiger: So that you do not feel that the Commission should endeavor to gauge the price which they would permit to be charged for the gas served by a public utility company to a fair return upon the money that has been invested in the property or a fair return upon the then value of the property; that it should be fixed by

competition between gas as a fuel and some other useful and usable fuel?

The Witness: I do not want to put myself in the position of saying that I would distate to the Commission in that

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[fol. 1767] respect.

Commissioner Geiger: You get my question?

The Witness: I do.

Commissioner Geiger: And you see the reason why we must ask it, because we are a price-fixing body and must fix the price under certain rules that have been laid down in the statutes and the decisions and we have not probably gotten to the point where we can fix a price in a market that is governed by competition between this class of fuel and some other class; in other words, the price is to be fixed at whatever the public is willing to pay; otherwise there could be no use for regulation, just let supply and demand regulate it. That is our difficulty and if you can enlighten us on it we would like to be enlightened.

The Witness: I do not think that I am in a position to answer that question.

By Mr. Davies:

Q. Mr. Webber, do you see any danger of competition between electricity and natural gas?

A. Not at the present time. The cost of producing electricity is too great to compete with natural gas.

Commissioner Geiger: Let me ask you one question there —I don't like to ask so many questions, but I want full light on it. In your knowledge of public regulation of public utilities especially in relation to natural gas do you take the position that all fields of consumption are open to all persons willing to produce natural gas and have it for production? Isn't the practical result of our system that one company occupies one city, and another another, and so on, and that there is not to be a free competition that might exist in having a company that has natural gas for

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[fol. 1768] sale to come in and say to a certain city, "We have got it and will furnish it at a less price"; now do you realize that picture?

The Witness: Possibly—probably, that that is the condition as it would appear, but I still have in mind that if there is a sufficient amount of proven acreage acquired and you went to a town you could secure the right or franchise to go into that town and supply gas.

Commissioner Geiger: Provided that town hasn't already entered into an arrangement with some other competitive company?

The Witness: Yes, and why I have the east in mind, there are so few of those towns that are supplied with natural gas.

Commissioner Geiger: I see; all right.

By Mr. Davies:

Q. And also, Mr. Webber, coal and oil and other fuels that are used industrially fluctuate in prices too, do they not?

A. They do.

Q. And they are on the downward trend now generally, aren't they?

A. They have been, but it seems as if they are about at the bottom now.

Q. They have about struck bottom, have they?

A. Yes, sir.

Q. They are lower than they have been for a good many years?

A. I believe they are, but the cost of production and transportation is about the same as it was before and that must be taken into account.

Q. But the price in the market is lower?

A. But the price in the market is lower, yes.

Q. Mr. Webber, directing your attention to what has been

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[fol. 1769] marked for purposes of identification as city Exhibit No. 65, I will ask you if that is a portion of the information that was submitted to you by the company for the purposes of appraisement?

A. It was.

Mr. Davies: You will admit, Mr. Davies, that this exhibit No. 65 was also submitted to the other three appraisers who were examined?

Mr. Turner: Yes.

Q. Mr. Webber, I direct your attention to three volumes on the table here to your right, entitled on the outside cover, "The Ohio Fuel Gas Company, Map showing Classification of Gas Lands as of June 30, 1929", Volume 2 and Volume 3, and which for purposes of identification are marked City Exhibits 66, 67 and 68, and ask you if these are the maps that were submitted to you for the purposes of evaluation?

A. They were.

And thereupon the maps last above referred to are marked for purposes of identification herein City Exhibits Nos. 66, 67 and 68.

Q. I believe you testified yesterday afternoon that you were an appraiser in the so-called Logan Gas Case?

A. Yes, sir.

Q. And in that connection of course you examined, investigated, the Logan Gas leasehold acreage at the time?

A. Yes, sir.

Q. And what do you say as to whether that leasehold acreage that you appraised at that time was comparable in sands and production and depth and rock pressure, 3282

[fol. 1770] etc., with the property that you are now appraising or now testifying about?

A. I have not looked at my figures or at the territory since I made that appraisal or since I testified, and I cannot say that they are.

Q. You cannot say that they are?

A. I cannot say that *htye* are comparable. I appraised the Logan territory at that time on what I found and I appraised this at this time on what I found.

Q. And you are conscious of the fact, are you, that that Logan territory, whatever portions of it are still owned by The Ohio Fuel Gas Company, was included in this appraisal?

A. Yes, a large part of it at least.

Q. Well, all that they have acquired and still hold?

A. Well, I suppose there has been some of it surrendered, some of that territory; I am not sure whether it is all included or not.

Q. Well, you were at that time, in 1924 and 1925, in the employ of The Ohio Fuel Gas Company, were you not?

A. I was.

Q. And how familiar were you with the Logan Gas Company's acreage at that time?

A. I was quite familiar and I spent a good deal of time familiarizing myself with it at that time.

Q. It was in practically the same field as The Ohio Fuel Gas Company's property?

A. It was.

Q. In the same townships?

A. It was.

Q. And much of it was continuous?

A. Yes, sir.

Q. And it was in largely the same productive—same

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[fol. 1771] fields of production?

A. Yes, sir.

Q. And still you feel that you are not able to say that they were practically about the same, generally speaking?

A. Well, at that time——

Q. Yes, yes, yes.

A. But it may have changed since that time as to—territory may have been brought in that had not been proved at that time and territory may have been depleted for a period of four or five years, so there would be some difference. And I did not go into that to compare them at this time; I never referred to my other figures; I do not know why I did not but I did not.

Q. Well——

Commissioner Geiger: Do you recall what your other figures were?

The Witness: I do not. I do not remember as to——

Commissioner Geiger: Could you tell us this, that recollecting your former appraisement and the then condition of the wells and your thought that you had in 1925 as to the extent of depletion, whether your examination in 1929 of some of the same property, a good deal of identical property, would justify the judgment you had in 1925 as to the then value of the field? That is, did it show the depletion between 1925 and 1929 that you anticipated it would?

A. Well, as I *may*, I did not check up to see what the depletion amounted to in 1925. I made no reference to those figures, I remember, as I believe now, my valuation in total at that time was around $15,000,000.

Commissioner Geiger: All right.

The Witness: On the Logan acreage, but I have never looked at those figures.

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[fol. 1772] Commissioner Geiger: Very well.

By Mr. Davies:

Q. Well, aside from that, I am directing your attention now particularly, Mr. Webber, to Class No. 1; aside from the question of depletion between 1925 and 1929 do you know of any particular characteristic that would distinguish the Logan Territory of that time with the Ohio Fuel Gas Company territory?

A. I do not believe I quite understand?

Q. Any particular distinguishing feature that would make a difference?

A. I do not quite understand your question. I do not quite get it.

Q. Is there any feature in your mind now that makes a difference between the Logan operated of 1925 and The Ohio Fuel Gas Company operated of 1929 except the question of depletion?

A. I don't know that there is any distinguishing difference.

Q. They are in the same sands?

A. Yes, sir.

Commissioner Geiger: Don't go into that; he has answered that.

Mr. Davies: All right, I will take your suggestion, sir.

Q. I think I inquired of you yesterday afternoon as to the factor of gas content that you assumed in connection with the gas acreage; how did you convert that, together with the other factors, into dollars per acre?

A. I took the amount of gas that I estimated was in those sands per acre, then concluded in my mind what I could take that acreage and offer it to a willing purchaser and receive per acre for it.

Q. You conceived in your mind that you could do that?

A. That, I felt confident could be done if offered to a willing purchaser.

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[fol. 1773] Q. But of course you had no willing purchaser then?

A. I had not, for I had no authority to offer it.

Q. You had no authority to offer it.

A. No.

Q. And if you sold that acreage to any particular person or company they of course would expect to make a profit on it?

A. Of course, they would.

Q. And where would their profit come from?

A. The sale of the gas.

Q. The sale of the gas in the market?

A. Yes, sir.

Q. So that to that extent at least the value of the leases would be bound to be reflected in the price of the gas?

A. Yes, sir, the value of the leases and the profits to be gained from the purchase of them.

Q. And in arriving at that figure you are taking a factor of 65 per cent depletion in the territory, is that right?

A. In No. 1 acreage.

Q. In No. 1 territory?

A. Yes, sir.

Q. Suppose the depletion was 50 percent; what difference would that make?

A. It would make the territory more valuable than I gave it. I think undoubtedly my depletion figure was high. I do not believe the territory has been depleted 65 percent after hearing the other gentlemen testify here; I think I used a very conservative figure when I used 65 percent.

Q. And assume that the depletion figure was 75 percent what would be the result?

A. It would be worth less.

Q. It would be less valuable?

A. Perhaps.

Commissioner Geiger: I think we can understand that without putting it down in black and white.

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[fol. 1774] Mr. Butler: We were anxious to know his measuring rod; suppose it were 75 percent depletion, how would he compute it then; suppose it were only 25 percent depleted, how would he compute it then.

Commissioner Geiger: Let me ask just one question and I think I can clear it up. You have taken No. 1 and you have

given a figure of $39.34 as the remaining value to the acre—

Mr. Turner: Wait a minute—just a minute.

Mr. Huffman: That is 37 cents.

Commissioner Geiger: Well, all right, give him the benefit of the three cents. Now that was based upon a thing that before any depletion was made was worth so much?

The Witness: Yes, sir.

Commissioner Geiger: If there had been no depletion on that acreage at all it would be worth about $100.00 an acre?

The Witness: Yes, sir.

Commissioner Geiger: Well, then to find out what it would be at any other percent of depletion all you would have to do would be to take $100.00 an acre, if that was your starting point, and give it the percent of depletion?

The Witness: Yes, sir to a certain extent; but I testified yesterday, and will testify now, that I took, I discounted all of those figures, to get even below——

Commissioner Geiger: Oh, we understand—I think we understand; if he starts at $100.00 and finds it has so much depletion and so much left, it is a mere matter of figuring the percent of depletion to find out how much it its worth.

The Witness: But the figure I gave here yesterday was $39.34——

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[fol. 1775] Mr. Huffman: The exhibit shows $39.37.

Mr. Turner: He said 34 but——

The Witness: Your figures are probably correct.

Commissioner Geiger: It might be interesting right there; you have deal in dollars and odd number of cents; what did you start with as your basis, $100.00?

The Witness: No, I did not start it that way; I just took and went over it all and I estimated the amount of gas in there and then estimated what I could take that acreage for and take it into the market and knock off 60 percent as present-day value, or 40 percent as present-day market price. I spend a good deal of time in trying to get at the bottom so that if this territory should be offered and engineers placed there, that they would find the figures and prices that I had fixed were such that it would be taken over at that price.

By Mr. Davies:

Q. And they would be taken over in relation to the general market conditions by whoever would take them over?

A. Undoubtedly they would have that in mind.

Q. Now you spoke a minute ago about a willing seller; you had no reason to believe that The Ohio Fuel Gas Company on June 30th, 1929, was a willing seller of all of this gas leasehold acreage?

A. I had not.

Mr. Turner: Objection.

Commissioner Geiger: Objection sustained, you have asked the question once—you have asked that question twice.

Mr. Turner: He asked it of each witness and I am simply saving my exception.

Mr. Davies: I have not asked this question of this witness.

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[fol. 1776] Commissioner Geiger: All right; objection overruled.

Mr. Turner: Note an exception.

The Witness: I had not.

Q. Was there in Ohio at that time a willing seller of gas leasehold acreage of that size and quality?

Mr. Turner: Objection.

Commissioner Geiger: Objection overruled.

Mr. Turner: Note an exception.

A. Not that I know of.

Q. Did you know at that time, June 30, 1929 or in the immediate past before that, of a sale in Ohio of gas leasehold acreage of that extent and quality and character?

A. I knew of none——

Mr. Turner: That is all limited to the same extent.

[fol. 1777] Q. In making your appraisement was there submitted to you a contract existing between The Ohio Fuel Gas Company and The Preston Oil Company by which the acreage for oil purposes was transferred to The Preston Oil Company, The Ohio Fuel Gas Company to pay the delayed rentals, and when an oil well was drilled turn the oil well over to The Preston Company upon the payment by the Preston Company of the delayed rentals on that particular acreage, together with the cost of the well; and a reciprocal arrangement by which when the Oil Company

drilled a gas well on its territory that it should be likewise —that it should be transferred to The Ohio Fuel Gas Company upon like payments, that is, of the delayed rental and the cost of the well; was that contract submitted to you for consideration?

A. That contract was not submitted to me but I have known of contracts of similar nature that we make with 3289
[fol. 1778] various companies, The Pure Oil Company and others, and I have always considered them favorable contracts for both parties.

Q. And did you take that at all into consideration in valuing your leaseholds here?

A. I did not.

[fol. 1779] Q. Did you consider the fact that The Ohio Fuel Gas Company charges the delayed rentals on these lease holds to operating expenses?

A. I did not.

Q. Did you take into consideration that The Ohio Fuel Gas Company charges the royalties to operating expense?

A. I did not take either of those into consideration but of course I knew that they do.

Q. Did you take into consideration the fact that The Ohio Fuel Gas Company charges the cost of dry holes to its operating expense?

A. I did not.

Mr. Turner: You knew that they did.

The Witness: I knew that they did.

Q. But it was not a factor in your appraisement?

A. It was not.

Q. Did you consider what the acreage appraised by you cost The Ohio Fuel Gas Company—or put it in another way, how much The Ohio Fuel Gas Company paid for the acreage?

Mr. Turner: Objection.

The Witness: I did not.

Mr. Turner: Well,——

Commissioner Geiger: Well, he said he didn't know.

Mr. Turner: Well I don't think it is competent, but I won't take up the time arguing.

By Mr. Davies:

Q. Did you know how much it cost the company?

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[fol. 1780] A. I did not.

Q. By the way, in the examination of the leases, the types of leases, did it show that generally the leases provided for a one dollar consideration for the lease; is that a general condition?

A. Generally, yes, sir.

Q. In making your appraisement did distance of the acreage from the market have any factor on the price that you fixed?

A. I did not give that thought any consideration that I know of.

Q. Did you give any consideration to the distance of the acreage from compressor stations—any effect?

A. I did not.

Q. Mr. Webber, do you recall the price per acre that you fixed on the Logan acreage No. 1 in 1925?

A. I do not. I was going to look that up last evening; but I never referred to that; but I will say now, whatever that price was I feel now that I am better able to fix a price on acres than I was then, whether my price was lower then or higher, because I have had four years more experience in buying and selling territory and mingling with engineers who do this work, and digging into my old information and preparing myself for just this work. So, whatever my figures were then, I will stand on these that I am giving you today.

Q. How much experience had you had prior to four years ago in the gas business?

Commissioner Geiger: We will not go into that; he has told generally how much experience he has had; by mathematics you can figure out how much he had.

Q. Do you recall that your first appraisement of No. 1

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[fol. 1781] in 1925 in the Logan case was about $96.00 an acre?

A. I do not recall.

Q. Well, it was, how would you justify that figure with $40.00 now?

A. Difference in viewpoint of that time from what I have now.

Q. And how would you justify the difference between you at $40.00 an acre in this case and Mr. Dally at $90.00 an acre for the same acreage in this case?

A. I won't attempt to justify it, but I will take my figures; I tried to make these low.

Q. And do you recall in the Logan case what you appraised the No. 3 acreage at?

A. I do not recall.

Mr. Turner: You can shorten that up by stating it. We have no objection to your stating it right in the record.

Commissioner Geiger: Sure, that is the way to get it in.

Mr. Davies: I want to ask him about it because I am not real sure; the figure I have is $3.50 per acre.

The Witness: I do not remember that figure.

Q. You would not say that is not correct, would you?

A. I will not.

Q. And for that Class 3 acreage now you fix a value of $33.60?

A. Yes, sir.

Q. Is that correct?

A. Yes, sir.

Q. And have you any explanation for the difference between your value of $33.60 and Mr. Meals' value of $4.00 for that same acreage?

Mr. Turner: We object to that, a comparison between witnesses; that is for the Commission to pass on.

3292

[fol. 1782] Mr. Huffman: Oh, I don't know; it might have a bearing on whether or not there is a market; fluctuation here has some indication here about whether or not there is a market.

Q. And in the Logan case your valuation of No. 2 was $54.00 plus; do you recall that?

A. I do not.

Q. And in this case $63.37?

A. $63.37, in this case.

Q And do you recall that in the Logan case your valuation of No. 4 was $1.60?

A. I do not.

Q. And in this case it is $3.00?
A. Yes, sir.

Commissioner Bricker: What was the No. 2 in the Logan?
Mr. Davies: $54.00 plus.
Mr. Turner: And what was No. 1?
Mr. Davies: $96.00 plus.
Mr. Turner: $96.00 plus as against $39.37 here?
Mr. Davies: Yes.
Mr. Turner: We will agree that $96.00 is right for Class 1; now we will have to do some computing here subject to correction, of course.
Commissioner Geiger: Let us go ahead, Gentlemen. You have it altogether right here. Go ahead with the next question. You of course may ask him why he makes the difference, if you wish to; that is all right.
Mr. Turner: He has.
Mr. Davies: That is all for the present.
Mr. Butler: I may say, if the Commission please, there were certain things connected with this examination about which I was making some surveys, when I was taken ill on Monday; since he is a resident of the city if may be that after this is concluded sometime we shall want him to come
3293
[fol. 1783] back for an hour or an hour and a half, but that will be a very short hearing, when I have finished that work. I was to have completed that on Monday afternoon but that morning I was taken ill and did not get to it.

Redirect examination.

By Mr. Turner:

Q. Mr. Webber, why do you say that No. 2 is partially depleted?
A. Because of its contiguity to No. - land having been in use with No. 1 and a certain amount of the gas taken from it.
Q. In other words, being taken now though it is not drilled?
A. Yes, sir.
Q. What do you from your experience in the gas business say is used and useful property of these four classifications to The Ohio Fuel Gas Company in the distribution of gas throughout Ohio?

Mr. Huffman: We object to the question for the same reason as with the previous witness.

Commissioner Geiger: Objection overruled.

Mr. Huffman: Note an exception.

A. I consider that all of this acreage is in use to the company.

Q. Do you know whether since June, 1929, any of the other classes of property than No. 1 have been drilled?

A. I do.

Q. What classes have been drilled to your knowledge?

A. All four classes.

Q. Tell us some of the places where the No. 4 has been

3294

[fol. 1784] drilled?

A. Northeastern Ohio, in Summit and Stark counties and Geauga County.

Q. Is that near the Brendel property?

A. Yes, sir.

Q. All right, give us some more counties in which No. 4 has been drilled to your knowledge?

A. Muskingum County, Tuscarawas County; further to the west I believe in Ashland County and throughout the State, throughout the Territory.

Q. Do you know whether or not they have gotten any gas in No. 4 territory?

A. Oh, yes.

Q. And have they gotten any gas in No. 3 territory since the appraisal that you made?

A. They have.

Q. And No. 2?

A. Yes, sir.

Commissioner Geiger: That is rather indefinite, if you are going to leave it there.

Mr. Turner: Oh, I am not going to leave it there; you anticipate me, Judge.

Commissioner Geiger: All right; go to it.

Mr. Turner: I will have the absolute figures here and you can examine to your heart's content on those figures. I will show 500 wells at least and show just where they are. I will spot them for you.

Mr. Butler: I thought you closed your case.

Mr. Turner: What are we doing here now?

Commissioner Geiger: Let me put a question right now. Do you know they have drilled at other places, 2, 3 and 4?

The Witness: Yes, sir.

Commissioner Geiger: And have discovered gas?

The Witness: Yes, sir.

Commissioner Geiger: Now does the discovery of gas 3295

[fol. 1785] that they have made in those drillings indicate to you from your examination that those 2, 3, and 4 acreages will be comparable in the productivity of gas to the new developed No. 1?

The Witness: I would not say that No. 3 and 4 would be comparable in production from the present indications, but that No. 2 will be.

By Mr. Turner:

Q. How about the No. 4 drilling in Muskingum County, is that comparable to No. 1?

A. Well, there yes, but as I understood the Judge's question, you asked me as to all of the No. 3 and 4?

Commissioner Geiger: Yes.

The Witness: No, 1 would not say the present indications are that they would be, but it certainly verified what has been done and verifies the estimates that I have made.

Commissioner Geiger: Have there been a comparable number of dry holes struck in proportion to the number of wells drilled in 2, 3 and 4 with those that would be developed in No. 1?

The Witness: The number of dry holes drilled by the Ohio Fuel in 1929, the figures of which I obtained after I had made this valuation, were less than the average dry hole figure that I had used in arriving at these values.

Commissioner Geiger: Well, how does that compare?

Mr. Turner: Those are the exact figures we will have for you.

Commissioner Geiger: How does it compare with the dry holes that were developed in No. 1 when they were originally drilled?

The Witness: Very favorably.

Commissioner Geiger: All right.

3296

[fol. 1786] By Mr. Turner:

Q. If the Ohio Fuel Gas Company were to surrender any of the leases of No. 2, 3 and 4, to what estent, if any, would that endanger their ability to deliver gas throughout Ohio?

Mr. Huffman: We object to the question.

Commissioner Geiger: Objection sustained as being too indefinite.

Mr. Turner: Note an exception, and we expect the witness, if permitted to answer, would answer as follows, and I will dictate it in later so as not to prejudice the Commission.

Commissioner Geiger: Don't make it too broad.

Mr. Butler: Haven't you yet prepared it?

Commissioner Bricker: You are presuming we won't read this record?

Mr. Turner: I am betting you won't read it.

Let the record show, if the witness were permitted to answer the question, the answer would be as follows:

If the surrender was of any consequential amount it would naturally reduce the ability of The Ohio Fuel Gas Company to serve its customers. The surrendered leaseholds would be taken up by other companies and if not sold in competition could be sold outside of the State of Ohio as there is a market for export gas.

By Mr. Turner:

Q. In his cross-examination of you, Mr. Webber, Mr. Davies referred to the fact that the purchaser of any such property would take it over in relation to the general market conditions; what do you say as to the values now of the properties that you have appraised here as Nos. 1, 2, 3 and 4?

3297

[fol. 1787]

Mr. Davies: I object. I thought we had agreed to the date as June 30, 1929.

Mr. Turner: Oh, that is the date, but as far as that is concerned you can fix the value up to now—changed conditions; the Courts have said changed conditions make a difference.

Mr. Davies: Do you want to make a change?

Mr. Turner: Oh, no; I am re-examining on your cross-examination. I don't know what you will argue from it when the time comes.

Commissioner Geiger: Objection overruled.

Mr. Davies: Note an exception.

The Witness: Those properties are worth all today of the value that I gave them in 1929.

Q. Did you put a value upon the gas content or upon the leases as leasehold rights?

Mr. Huffman: We object to the question.

Commissioner Geiger: Objection overruled.

Mr. Huffman: Note an exception; I think he has stated it time and time again, he was valuing the leases.

Mr. Turner: Have I had any opportunity to re-examine?

Commissioner Geiger: Well, do you want to show that he did not; that he made a wrong statement? All right, go ahead.

Mr. Turner: Oh, no, I don't want to show that he made a wrong statement either.

Commissioner Geiger: Go ahead.

Mr. Davies: Note an exception.

3298

[fol. 1788] The Witness: My value was given on the leasehold acreage.

Mr. Turner: I wish we had a little order here.

Commissioner Geiger: That is what we are going to preserve from now on.

Mr. Turner: Well, then I would like to have the Chairman preserve it then.

Commissioner Geiger: I am temporary chairman.

Mr. Turner: Oh, no, you are not chairman of this Commission.

Chairman Hopple: Go ahead.

Mr. Turner: All right, thank you.

Commissioner Geiger: I will say in all frankness, Mr. Turner, if you would rather I should retire from the case I am perfectly willing to do it.

Mr. Turner: I would rather you would retire from the chairmanship.

Commissioner Bricker: I think the weather is getting a little warm today.

By Mr. Turner:

Q. Mr. Davies asked you as to whether or not there was any competition of electricity with gas; may I call your

attention to the sale, if you know of it, and ask you whether you operate on electricity for the purpose of water heating at so-called off-peak load rates; do you know anything about that?

A. I do not.

Q. Do you know anything about the electrical business at all?

A. I do not.

A. Do you know about the Benedum Trees Oil Company?

A. I do.

3299

[fol. 1789] Q. How do they stand in the industry?

A. Very high.

Q. You were inquired about of these leasehold forms; let me ask you whether or not those leasehold forms are the result of one company's forms or the accumulating together of a number of companies' forms?

A. By the melting together of a great many different forms.

Q. The Ohio Fuel Gas Company has acquired these leaseholds from other companies, have they not?

A. Yes sir, other companies and individuals.

Q. What is the fact as to whether other gas companies own gas lands in this territory shown on the map Company Exhibit No. 139.

A. Several other companies own territory in the same field.

Q. Assuming that the laws of this State did permit competition in the various cities of the State, do you know of any reason why the gas from these fields could not be sold in competition with any other natural gas?

A. I do not.

Q. Assuming that the laws permit this gas from these fields to be exported from the State of Ohio, do you know of any reason why that gas could not be sold in such markets as Detroit, Buffalo, Rochester, Erie and other towns and cities?

A. I know of no reason why it could not.

Q. You were asked what a willing buyer would do with a property after he got it and asked if he would not have to sell the gas might he not sell the leaseholds?

A. He might, yes, sir.

Q. I will ask you to state whether or not on or about June 1921, there was a market for such gas leaseholds in the State of Ohio?

A. There was.

3300

[fol. 1790] Q. You were asked whether or not you knew of any other gas lands in the State of Ohio of comparable size, quality, etc.; I want to ask you whether you know of any other gas lands in the State of Ohio of comparable quality, irrespective of the size?

A. I do not.

Q. Are there any other gas lands in the Clinton sand that are now owned by The Ohio Fuel Gas Company?

A. There are, but not of as much acreage.

Q. That is just what I am getting away from; leaving out the extent of the acreage and the quality of sands and gasses and leases, are there other leaseholds of equal quality not quantity?

A. Yes, sir; yes, sir.

Q. Have there been sales of leaseholds in Ohio?

A. There have.

Q. Over what period of years have there been sales of leaseholds of gas lands?

A. Ever since I have known anything about the production of gas.

Q. Down to now?

A. Down to now.

Mr. Turner: I think that is all for the present.

Re-cross-examination.

By Mr. Davies:

Q. When you answered with reference to quantity used and useful did you take into consideration the quantity of gas that the Ohio Fuel Gas Company gets from West Virginia?

A. Of course I am aware of the fact that they transport gas from West Virginia here.

Q. Do you know how much they transport per year in

3301

[fol. 1791] comparison?

A. I do not know now just — that is.

Q. If you knew that it was one-third of the total quantity used would that reflect in your answer with reference to the used and useful territory?

A. It would not.

Q. It would make no difference?

A. No, sir.

Q. The fact that they buy a considerable quantity of their gas from independent producers would that have any effect on your answer?

A. It would not; the amount that they buy does not have any effect; I know it is small, the amount that they buy, as compared to the amount that they use.

Q. You are speaking now with reference to what they buy in Ohio?

A. From the independent producer in Ohio.

Q. Do you know what the percent is of the total amount that they use, that is gotten either from West Virginia or from independent producers?

A. I inquired as to about what they purchased in Ohio and was told it was only about 20,000,000 per day, as I remember.

Q. This quantity of reserve is considerably larger than the quantity of reserve carried by such a company as the Carnegie Company, isn't it?

A. Judging from Mr. Meals' territory, it is but Mr. Meals' company has no such obligations to meet as The Ohio Fuel Gas Company has by the way of supply domestic consumers.

Q. It has the problem of furnishing all the necessary gas for the Carnegie affiliated companies, has it not?

A. I do not know only from Mr. Meals' testimony.

Q. And it is important for it to see that it has enough gas to take care of these industries, isn't it?

A. I am not familiar enough with the Carnegie Company

3302

[fol. 1792] to answer those questions.

Q. I see; and they have the problem of seeing that they have enough gas to take care of their various industries projected forward into the future, haven't they?

A. I am not familiar with the Carnegie's operations or their consumers only what I gathered from Mr. Meals' testimony yesterday, and that was not very extensive.

Q. Suppose the Ohio Fuel Gas Company had a million more acres, would you still say it would be used and useful for its business?

A. I believe that The Ohio Fuel Supply Company would not be out of place in acquiring another million acres carrying it in Ohio; there is no question but what somebody else might conceive the idea of coming into Ohio with pipe lines and gathering territory that now is open that might prove to be fertile and that I never think a large company could hardly carry too many acres; I think they would be justified in carrying even more acreage than the number that The Ohio Fuel Company carries in order to insure a production of 300,000,000 cubic feet of gas per day. If you had taken part in trying to find that amount of gas each year you would know something about how exercised you would be to know whether or not you had territory to go to develop and produce that gas when you needed it.

Q. And you would characterize such acreage as used and useful?

A. I would.

Q. And where would you draw the limit, Mr. Webber, on the amount of acreage?

A. I would only draw the limit as the opinion by good and sound management of the company; and I consider The Ohio Fuel Gas Company as well managed.

3303

[fol. 1793] Q. I am trying to get a limit; you say you would justify at least 2,000,000 more acres; how many more than 2,000,000 would you justify?

A. I did not use 2,000,000 more—I did not mean to; I said I believed they would be justified in carrying a larger acreage; I don't think I said 2,000,000 more.

Q. Perhaps not.

A. But perhaps if it was brought to my attention, and they did have 2,000,000 more I would think I would want to pass on that, when the question was put to me, knowing all the conditions confronting them as to their markets.

Q. Perhaps—and I am corrected here, that you did say one million or more; I said two million; do you recall that you said one million or more? I want to quote you correctly.

A. I will state that if they had another million acreage of as favorable looking territory as this I would say that it was in use.

Q. Well, is it your theory that they ought to increase their market here in Ohio and get more places to furnish this gas?

A. No, I haven't said that.

Q. Well, I say, is that your theory in connection with this answer?

A. No, I have no such theory, no, sir; to maintain gas for their present market.

Q. Mr. Turner seemed to take the view that I had asked you for only one branch of the object that a purchaser would have in taking over these leaseholds; if they took these leaseholds over I think I asked you if they would not expect to get a profit on them; you answered "Yes," is that right?

A. Yes, sir.

Q. And that profit would come either from the resale of the leases or from a sale of the gas; are we right on that?

A. I would assume so, yes.

3304

[fol. 1794] Q. By the way, do you recall that there is a new gas field developing in New York State?

A. I do, but it is not very extensive as yet; it is very much confined to one very congested area.

Q. But it has been discovered and is being developed?

A. It is being explored with discouraged results.

Q. But they have found gas there?

A. Yes, sir.

Q. Do you know just where that is?

A. Tioga County, Pennsylvania; there are three or four wells in the northern part of Pennsylvania as it joins New York State, and in Schuyler County, New York, not far from Watkins Glen they have drilled some 18 or 20 wells that have proven very prolific, but they seem to be surrounded by water and how long they are going to stand up or how long lived they will be can only be determined when they begin to draw on them so there is nothing extensively favorable about that field as yet for there have been several dry holes drilled between the Watkins Glen Pool and the Tioga County, Pennsylvania pool, and water bound in the Oriskany formation where they expected to find the gas.

Q. So they strike dry holes over there too?

A. Yes, sir.

Q. But there is a prospective field apparently there, isn't there?

A. There is.

Mr. Davies: That is all.

3305

[fol. 1795] Redirect examination.

By Mr. Turner:

Q. How many years ahead is it necessary for The Ohio Fuel Gas Company to plan for delivery of its gas to its consumers?

Mr. Davies. We object. I don't think Mr. Webber is qualified along that line; he is a leasehold man, is all he has qualified for.

Commissioner Geiger: That is a pretty serious question; what do you think about it?

Chairman Hopple: If he knows, he may answer.

Mr. Davies: Note an exception.

The Witness: In my experience I have observed they usually try to look ahead for at least a period of 20 years.

Mr. Turner: That is all.

Commissioner Geiger: Now would you say from that, or could you be permitted to infer from that that in your judgment the property that is now used and useful to which you have testified issued and useful for a period of 20 years from this time?

The Witness: Yes, sir.

Mr. Butler: Your Honor might ask the gentleman if that was true when the representatives of the Fuel Supply Company were saying that the gas would be out in eight or ten years and there would be no gas at all.

Commissioner Geiger: That is another story. Just one moment; I would like to clear up something that is a little cloudy in my mind. You have testified that in your judgment the value of acreage No. 1 as it was at the time you

3306

[fol. 1796] made the appraisement was $39.34 per acre; that that was depleted 65 per cent?

The Witness: Yes, sir.

Commissioner Geiger; Now if it had its entire original content of gas and was not depleted at all, it would be

$112.00 an acre; that is, $39.34 is 35 per cent of 112; that is the way you arrive at that; that would be correct?

The Witness: If you care to use that——

Commissioner Geiger: Now you have testified that acreage No. 2 is now worth $63.37 and that it is depleted to some extent by reason of its probably having had its gas taken away by the wells in acreage No. 1, is that correct?

The Witness: Yes, sir.

Commissioner Geiger: To what extent would you say, in your judgment that acreage No. 2 was depleted by this drainage of its gas through the wells on acreage No. 1?

The Witness: I testified yesterday 35 per cent.

Commissioner Geiger: Then acreage No. 2 was not placed in your judgment, its 100 per cent value, as high as acreage No. 1?

The Witness: Well, these figures—that would indicate that there would be very little difference.

Commissioner Geiger: Well, if it is depleted 35 per cent roughly it would be valued originally at $100.00?

The Witness: Yes, sir.

Commissioner Geiger: Now, as I recall the testimony of practically all the witnesses, that as to acreage No. 2 there [fol. 1797] had not been at the time you made your appraise-

3307

ment any intensive drilling of wells; that is, you base your judgment upon its value from its proximity to acreage No. 1 on which wells had been drilled and other acreage belonging to other companies?

The Witness: Yes, sir, that had been drilled.

Commissioner Geiger: Now does your experience lead you to the view that you could judge of gas lands on which there had been practically no drilling as to its probable value up to the extent of $100.00 an acre in the market.

The Witness: Yes, sir.

Commissioner Geiger: Do you think you could go out and sell it at that time in the market and especially in conjunction with the other acreage, No. 1, 3, and 4, at what would be an estimated value of $100.00 an acre, less its then depreciation?

The Witness: Yes, sir.

Commissioner Geiger: And that you could do because the common experience of gas men would indicate that that would be their relative value?

The Witness: Yes, sir.

Commissioner Geiger: Even though no wells were dug?

The Witness: Yes, sir.

Commissioner Geiger: Well, now acreage No. 3 you put at $33.60; I assume you go on the theory that there is no depletion on acreage No. 3?

The Witness: No depletion.

Commissioner Geiger: Because it is too far away from acrage No. 1 and would not have had anything drawn from

3308

[fol. 1798] it through the use of acreage No. 2?

The Witness: Yes, and a little more uncertain as to the production in its entirety.

Commissioner Geiger: Well, you put it at $33.60, which is one-third of the value that you would put on acreage No. 2 if acreage No. 2 had not been depleted?

The Witness: Yes, sir.

Commissioner Geiger: Now would you be able to say that you knew enough about acreage No. 3 to say that it was worth one-third of the acreage No. 2, or is that just an estimate?

The Witness: Oh, no, in my opinion it is worth that.

Commissioner Geiger: Of course you vary a great deal from your judgment of acreage No. 3 that you gave in the other case; there you stated it was worth $7.50 for No. 3 and now you say it is worth, in your judgment, $33.60?

The Witness: I did not get all of that question Judge.

Commissioner Geiger: In the Logan case you stated that in your then judgment, in 1925, acreage No. 3 was worth $7.50 an acre?

The Witness: Yes, sir.

Commissioner Geiger: And now you say in 1929 that substantially the same character of acreage, and in some places the same identical acreage, is worth $33.60, almost five times as much?

The Witness: Well, Judge in explaining that—I had not compared those figures, but in explaining that, I don't remember how I arrived at the value of No. 3 in the Logan case, but in this case I used the same system with 1, 2, and 3 all the way through, but I think probably in the Logan case

3309

[fol. 1799] I took more of an estimating it without going into reserves of gas, as I did in this case.

Commissioner Geiger: In other words, you would say that in your judgment your estimate made in 1929 is more thorough?

The Witness: Is more thorough and more apt to be correct because of the experience I have had in the last four or five years since I gave the value in the Logan case in arriving——

Commissioner Geiger: Well, in the Logan case, in 1925 you estimated No. 4 at $1.60 an acre and you estimate the comparable acreage in 1929 at $3.00 an acre, almost twice as much?

Mr. Turner: We would like to reserve the question whether it is comparable acreage; we have not been advised as to the method in which the classification was made in that case.

Commissioner Geiger: Well, let me get at it in another way. Objection is made to using the word "Comparable," we would ask you that same question with a changing of the word "comparable" to acreage that was then designated in that case as acreage No. 4?

The Witness: In answering to that I would say that in June, 1929, there was a greater demand for such acres, as is indicated by 2,065,000 acres in No. 4 than there was when I valued the Logan case.

Commissioner Geiger: Well, in other words, you were valuing it upon the then market?

The Witness: Yes, sir.

Commissioner Geiger: Rather than upon any enhanced value by reason of gas development or discovery of new gas [fol. 1800] territory in acreage No. 4?

3310

The Witness: Well, not entirely; the field has been broadened out since 1925; it has been extended further to the north, further to the south, and further to the east, and——

Commissioner Geiger: Well, that is enough on that. Now one other question and I am done. In 1925 I have used 1925; was it '25 or '26?

Mr. Turner: It was 1925, and as of 1924.

Commissioner Geiger: You valued in the Logan case acreage that was then designated as No. 3 in that case, at $96.00 an acre, and in the present valuation you make it at $39.00 an acre, or in round figures $40.00 an acre, less than

half its then value as you estimated it in the Logan case. Would you say that that difference arises from a revision in your judgment, that you are better able to judge what it was worth, or a change of the market, or a depletion of the gas during the intervening five years, or all of them combined?

The Witness: All of them combined to a certain extent and to a great extent to the greater amount of depletion.

Commissioner Geiger: I see.

Redirect examination.

By Mr. Turner:

Q. Were you basing your valuation in 1929 upon what a willing buyer would pay a willing seller?

A. I was.

* * * * * * *

[fol. 1801] Mr. Turner: Now, before we adjourn I want to offer one exhibit that I have here. It is Company Ex-

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[fol. 1802] hibit No. 140, identified by Mr. Dally. This is an offer from the Benedum Trees Oil Company of $30,000,000.00 for the gas lands, plus reproduction cost, less depreciation of the gathering lines and gas wells. The offer is as follows:

"Pittsburgh, Pa., June 23rd, 1931, Ohio Fuel Gas Company, Columbus, Ohio——

Mr. Butler: Wait a minute. Is that competent?

Mr. Turner: I think it is, and we are offering it.

Mr. Butler: Well, wait until we look at it before you read it in.

Mr. Huffman: We have not seen it.

Commissioner Geiger: Well, then you object to it because it is June 23rd, 1931; that is day before yesterday?

Mr. Turner: Yes. It shows a market.

Mr. Butler: If Your Honors please, that is the most self-serving declaration and the most brazen attempt to stampede that we have ever seen. We might just as well come in with three or four offers that we gather on the street and offer 30 cents for their gas lands, and file it.

There would be just as much sense and just as much nonsense in that as in this.

Now of course we are all wise enough, however wise we may be, we are all wise enough to see the purpose of this thing that is born of an emergency. They could just as well have offered $40,000,000.00 or $90,000,000.00 or $120,000,000.00, and I think that the production of an offer of that sort to this Commission is simply an evidence of that extent to which this protestant will go in an attempt to carry through its attempt to place an enormous valuation upon [fol. 1803] properties that have no place in this appraise-

3312

ment; it is wholly incompetent, and if Your Honors agree with us you can exclude it and it can be attached as an exhibit for purposes of the record.

But this attempt to read a thing like that into the record ought to be stopped; it is improper.

Mr. Turner: They say that the proof of the pudding is the eating of it. Now here is a responsible firm that offers $30,000,000.00 for these gas lands. We have developed here that it is a responsible firm, and you have plenty of time to examine to see whether they are a responsible firm. They offer this $30,000,000.00 for these gas lands and it shows whether or not they had a value then and it shows whether or not there is a market for it. It answers Mr. Davies' question as to whether a purchaser would not take into consideration present-day conditions. It seems to me that it is no patent that it is proper——

Mr. Butler: Mr. Turner, it proves one thing, the truth of the old maxim "Unless we all hang together we hange separately."

Mr. Turner: Oh, we would not sell this to a confectioner.

Mr. Butler: Where is your willing seller?

Mr. Turner: You don't have to have a willing seller; you were not a willing seller in any of the cases that were tried to take the State property away from you.

Mr. Huffman: This is not a condemnation case.

Mr. Turner: I am asking Mr. Butler a question.

Commissioner Geiger: Never mind about that; address the Commission.

3313

[fol. 1804] Mr. Turner: I am addressing the Commission, because Mr. Butler was not here when we had the argu-

ment the other day, that I do not believe the proof of a willing seller is necessary to make a market; it is a hypothetical situation of what would a willing seller and a willing buyer value the property, assuming there are willing buyers and willing sellers. Now we prove the market by values and sales. I have an offer here for these leaseholds of $30,000,000.00 plus the price of the gas wells and the gathering lines.

Mr. Davies: I do not want to prolong the argument but the Commission remembers that every witness has said that these companies that own that much leasehold do not sell. They have no reason to believe that this company was willing to sell at the time or at any other time.

Commissioner Geiger: The question is to competency, and not the weight of the evidence.

Mr. Davies: If you know that a man will not sell you can make any kind of an offer.

Commissioner Geiger: That all goes to the weight. The question it seems to us is this, in the midst of a lawsuit if you have a value on a specific piece of property, is it competent to offer a price for that specific piece of property that somebody makes? In other words, if that person, by means of an offer, comes in and acts as a witness—if this person wants to testify it is worth that much, and is competent, he should be here subject to cross-examination. Now the question is whether you can just bring in a lot of offers as reflecting upon the question that is before us, if it is a competent question; was there a market in

3314

[fol. 1805] 1929, and what is the fair market value?

Now if we had this question up in a condemnation case the Court would unhesitatingly say that it is incompetent, that it does not prove that there is or was a market in 1929.

Mr. Turner: I think the Commissioner has gotten my point that we are offering it to show that there was a market——

Commissioner Geiger: Of course that is some time ago. The judgment of the Commission is that it is not competent and will exclude it. It may be offered as an exhibit and attached to the record.

Mr. Turner: Note an exception, and may we have the privilege of substituting a photostatic copy?

3317

[fol. 1806] E. E. Roth further testified:

Q. What do you have to do with the well data in The Ohio Fuel Gas Company?

A. We keep complete records of all the well information for the Ohio Fuel Group.

Q. I wish you would tell the Commission what wells have been drilled in the No. 1 territory between June 30th, 1929, and May 31st, 1931?

A. There have been drilled in Class No. 1, 98 wells.

Q. How many of them were dry and how many of them were productive?

Commissioner Geiger: 98 wells in what time?

Mr. Turner: 23 months, up to May 31st, 1931.

The Witness: 19 were dry and 79 productive.

Q. That is a percentage of 19.4 dry?

A. That is right.

Q. And 80.6 productive?

A. That is right.

Q. All right; let us go to No. 2.

A. In No. 2 there were 287 wells drilled.

Q. How many dry and how many productive?

A. 54 were dry and 233 productive.

Q. That is 81.2 per cent productive and 18.8 per cent dry?

A. That is right.

Commissioner Geiger: Don't go quite so fast, Mr. Turner; 54 dry and how many not dry?

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[fol. 1807] The Witness: 233 productive of gas; oil has been omitted.

By Mr. Turner:

Q. Now give us No. 3?

A. In No. 3 there were 130 wells drilled, 41 dry and 89 gas.

Q. That is a percentage of 68.5 productive and 31.5 dry?

A. That is right.

Q. Give us the same data for No. 4?

A. In Class 4 there were 170 wells drilled, 80 of which were dry and 90 productive.

Q. That is a percentage of 52.9 productive of gas and 47.1 dry?

A. Yes, sir, that is correct.

Q. Now give us the grand total of wells of all classes?

A. 685.

Q. Now give us the percentage of each class of the total amount drilled?

A. In Class 1 there was 14.3 per cent; class 2, 41.9 per cent; class 3, 19 per cent and class 4, 24.8 per cent.

Q. What was the percentage of dry holes—total?

A. 28.3 per cent.

Q. And productive 71.7?

A. That is right.

Q. Now I wish you would tell us in how many counties you drilled in No. 4 territory?

A. You mean productive wells?

Q. How many counties have you? You told me 28.

A. There are 28 counties.

Q. In how many of those counties did you actually get production in No. 4 territory?

A. In 19.

Q. In other words, in 19 out of 28 counties in No. 4 you got productive gas wells?

A. That is right.

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[fol. 1808] Q. What supervision, if any, did you have over those records that were submitted to the valuation witnesses, Meals, Dally, Whitmer and Webber?

A. I had general supervision over the preparation of those exhibits.

Q. Now I wish you would outline to the Commission the method of preparation of this data for the valuation witnesses; go slow now so that the Commission will get it.

Mr. Turner: If we had another book around here we could proceed. Have you your exhibits, gentlemen?

Mr. Davies: Are you referring to the summaries?

Mr. Turner: Yes. Will you look at those for a moment?

Mr. Butler: That is all we have.

Q. Now, go ahead and explain it, starting at page 1; what have you done here?

(No reply.)

Mr. Butler: Mr. Turner, may I ask you a question.

Mr. Turner: Yes.

Mr. Butler: Is Mr. Roth the witness who will testify as to the creation of Nos. 1, 2, 3 and 4?

Mr. Turner: Well, you can ask him that question now. Did you help prepare them—the classifications?

Mr. Butler: We are looking for the man who did prepare it.

Mr. Turner: Well, that is the first we have heard of that, Mr. Butler, and Mr. Webber, who was here the other day, was one of those who helped prepare it.

The Witness: But Mr. Wilson, vice president *of* that time of the Ohio Fuel Gas, and myself——

Mr. Butler: I want to get the man who can testify to those and give the reasons for them.

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[fol. 1809] Mr. Turner: All right; we will submit this to you for that sort of examination.

By Mr. Turner:

A. No, go ahead with my question and explain just how these exhibits are gotten up?

A. This one you place in my hand is the Ohio Fuel Gas Company summary of Gas wells as of June 30th, 1929, and Gas Lands as of June 30th, 1929. It contains a——

Commissioner Geiger: What exhibit?

Mr. Turner: It is no exhibit; that is one of the books that counsel were kind enough to say they would not insist be——

Mr. Butler: We want to put them all in; we want over them Friday again; we want them all in; we went into it very carefully and there is not any escape from it.

Mr. Turner: Well, that is my first notice of that.

Mr. Butler: Well, we told Mr. Calland that; you were not there.

Mr. Turner: Oh, wasn't I there?

Mr. Butler: Well, we didn't see you.

Mr. Turner: Otherwise, may I proceed?

Mr. Butler: Oh, yes; but I was about to say that these could be marked City's exhibits.

Mr. Turner: No, it won't be marked City's exhibit either.

Mr. Butler: What is the matter with you? Well, go ahead; I will withdraw my objection. Proceed. We will

put it in in the regular way. Go ahead. I will withdraw my objection.

The Witness: This volume here contains an index——

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[fol. 1810] Mr. Turner: Well, we will have it marked, notwithstanding the agreement.

Mr. Butler: Now there is no excuse for that.

Commissioner Geiger: Let us don't get into that so early in the morning. What exhibit will it be marked?

Mr. Turner: Company Exhibit No. 141.

And thereupon the document last above referred to is marked for purposes of identification herein as Company Exhibit No. 141.

Q. I hand you what has been marked for purposes of identification Company Exhibit No. 141 and ask you now to continue to state——describe it.

Mr. Davies: Please characterize it so that we can keep a record of it.

Mr. Turner: It is summaries of gas wells as of June 30th, 1929, and gas lands as of June 30th, 1929.

The Witness: It contains a general description of the classification of leaseholds, an index, and summaries of well data and lease data which has been taken from the other books here. It is merely a summary of all of the exhibits.

By Mr. Turner:

Q. Now I hand you what may be marked as Company's Exhibits Nos. 142, 143 and 144, and ask you to state briefly what those are?

A. They consist of three books of maps showing the leaseholds of The Ohio Fuel Gas Company as of December 30th, 1929. The leaseholds are shown as of June 30th, 1929. The leaseholds according to their class are shown by a color

3322

[fol. 1811] scheme. Class 1 is represented by a red color, Class 2 by a blue color, Class 3 by borwn and Class 4 by yellow.

Q. I wish you would turn to a map in one of these exhibits and tell the Commission how wells are indicated?

A. Of course, those maps—they have no correspondence.

Q. I understand that, but you will have some sort of a marking in them that shows the wells?

A. Gas wells are denoted——

Commissioner Geiger: Select a page and refer to it.

Mr. Turner: We cannot unless we look at the same book.

The Witness: You will find in the red, or first class, a gas well is indicated by a circle with eight prongs on it resembling a star.

Q. All right; go ahead.

A. Dry holes are indicated by a circle with four prongs. Oil wells are indicated by a circle colored in black, and an oil and gas well would be a circle colored in black with eight prongs. Of course, not all maps contain all of the different types of walls; some have only gas and some have oil and gas and some have only dry holes.

Q. What is the insignia of a dry hole or abandones well?

A. An abandones well has a V which cuts the well from the top towards the center.

Q. A "V"?

A. A V-shaped—more like a check mark.

Q. Now how are the company's wells identified on those maps?

A. The Company's wells are identified by a number called their serial number.

Q. What connection if any has that number with this Exhibit No. 141?

A. Well, that is a summary exhibit; you mean this exhibit

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[fol. 1812] over here?

Q. All right; with an exhibit which I will have marked for identification No. 145.

A. That number——

Q. We are referring now to the number you will find on there and its connection with Exhibit No. 145.

A. It is the number in Exhibit No. 145 which is headed "Well serial Number".

Q. All right. Now how are wells other than company's wells designated?

A. The symbol, of course, is the same for gas, oil or dry; however, those wells have no serial number.

Q. Do the maps in these exhibits Nos. 142, 143 and 144 show all of the developed territory in the particular township?

A. They do.

Q. Well, let us reframe that question; does it show the property developed either by The Ohio Fuel Gas Company or anybody else?

A. Yes, in that it shows the wells.

Q. It shows the other persons' wells?

A. Yes.

Q. Does it show the territory of other companies in the same colors that you have colored in The Ohio Fuel Gas Company?

A. No, sir, it does not.

Q. It surely shows their wells?

A. That is right.

Q. Now I hand you what has been marked for identification as Company's Exhibit No. 145 and ask you to tell the Commission what that is?

A. The title of this exhibit is "The Ohio Fuel Gas Company, Summary of Gas Wells as of June 30, 1929".

Q. Well, I wish you would just run across the page and tell the Commission what date is contained in this?

A. You will find the first column marked "File Number", 3324 [fol. 1813] which corresponds to what is usually called the lease number.

The next one is the "Grantor" from whom the lease is obtained.

The "Date of Conveyance" is the date of the lease.

"Number of Acres" is the total number of acres on the farm on which the well is drilled.

The "Map Location" refers to the section.

The next is "Well Serial Number", which is the company identification number.

The next is the "Sand", given by name as carried on the records.

The next is "Sand Thickness", referring to the total thickness of the sand.

The next is the "Depth of the Well" in fact.

The next is the "Initial Open Flow" given in cubic feet.

The next is the "Rock Pressure in the year 1928", given in pounds.

The next is the "Average Line Pressure at Well, the year 1928", in pounds.

The next is the "Average First Minute Rise above Line Pressure in the year 1928" also given in pounds.

The next is the "Tubing Volume" in cubic feet.

The next column is the "Volume Factor".

The next is the "Number of Days Well Used, the year 1928".

The next is "Calculated Production, the year 1928", given in M. cucic feet.

The next is the "Corrected Production, year 1928", given 3325 [fol. 1814] in M. cucic feet.

The next if the "Average Calculated Daily Production, year 1929", in M. cucic feet.

The last column is the "Annual Capacity if used average time of 238 days," given in M. cubic feet.

Commissioner Geiger: What do you mean by "average time of 238 days."

The Witness: Your Honor, that is obtained by taking an average of the time all wells were used during 1928.

Commissioner Geiger: It does not have anything to do with the life of the wells; only the days used in any one year?

The Witness: I do not believe I understand; it would have a bearing on the life of the wells, surely, but it means there simply the average number of days the well was in use during that particular year.

By Mr. Turner:

—. By "use" you mean turned into the company's line?

A. That is right.

Q. I hand you what have been marked Company Exhibits 146, 147 and 148, and ask you to state briefly what they are.

A. These exhibits consist of a detailed list of gas lands as of June 30th, 1929; they are prepared in three volumes.

Q. Just take the first page and indicate how it is handled?

Commissioner Geiger: What are those, 146, 147 and 148?

Mr. Turner: Yes, those are exhibits 146, 147 and 148, three volumes.

The Witness: The detail in these volumes, the first column is Map Location, referring to the section.

By Mr. Turner:

Q. I wish if you please you would state whether or not 3326
[fol. 1815] the data contained in these Exhibits 146, 147, and 148, is co-related to Exhibits Nos. 141 and 145, or either of them?

A. It is co-related to both.

Q. All right.

A. The Grantor is the parties from whom the lease is taken.

Q. Is the name set forth?

A. Yes; the File Number refers to the lease number or the identification number as the company shows it on their records.

The date of Conveyance is the date on which the lease was acquired.

The form of Grant marked "Exhibit" refers to lease forms which are shown in another exhibit.

Mr. Turner: Wait a minute; this may be marked as Company Exhibit No. 149.

And thereupon the document last above referred to is marked for purpose of identification herein as Company *Ehibit* No. 149.

Q. Now you referred to another exhibit; do you mean E-hibit No. 149.

A. Yes, sir.

Q. All right; go ahead.

A. The Number of Acres is the number of acres in the lease. The Delay Rental Terms refers to the terms of years of the lease.

The Annual Gas Well Royalty is the amount paid after the well is drilled for each productive well.

The number of Wells Operated merely designates the number on the lease.

Q. State whether or not those exhibits to which you are 3327
[fol. 1816] just referring now, Nos. 146, 147 and 148, contain different sheets for different classes, or separate sheets for separate classes?

A. Each class is set up on separate sheets, designated in the upper right hand corner which class it is.

Q. And with relation to townships and counties, what data is contained in those exhibits?

A. They are prepared in alphabetical manner, both counties and township.

Q. I want to know whether or not that data are so prepared that you can find, or that anyone through the index can find any information regarding the classification of the lands, the location of the lands, the ownership of the fee, the class of leasehold and the number of the wells on each lease?

A. I believe these exhibits are so prepared that you can find the data you have mentioned.

Q. Can you find also the initial pressure of each well?

A. In the exhibit marked No. 140——

Q. I am talking about all of these exhibits now.

A. Oh, yes, you can find that.

Q. Can you find any intermediate pressure?

A. The 1928 pressure, yes, sir.

Q. Is there a separate map for each township in which the county has gas lands?

A. Yes, sir.

Q. Now I call your attention to Company Exhibit No. 139 and ask you if that was prepared under your direction?

A. Yes, it was.

Q. Now, does that correctly show the proportions of the Company's gas lands in the various townships?

A. It does. I might make this statement, however; in scaling this we have used the vertical side of the township

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[fol. 1817] to get the proportionate scale.

Q. What do you mean by that?,

A. It is pretty hard to scale in by using the whole township, see? You might have to start at the center and scale it in block form. If the township *to* square it makes little or no difference, but where you have oblong townships you have to scale in different manner. It gives a proper idea of this map.

Q. I hand you what has been marked Company Exhibit No. 149, and ask you to state briefly what that is?

A. Exhibit No. 149 is a set of lease forms, entitled "Gas Lands, Form of Grant".

Q. Now is this Exhibit No. 140 co-related to Exhibits Nos. 141 and 145, or either of them?

A. It is co-related to these exhibits.

Q. That is 146, 147 and 148?

A. Yes, sir.

Q. And Exhibits, 146, 147 and 148 are co-related to both 145 and 141.

A. Yes, sir.

Mr. Turner: We offer in evidence Company's Exhibits Nos. 141 to 149 inclusive, being the data upon which the valuation witnesses predicated their testimony.

Mr. Davies: And would you add to that, being the exhibits referred to by the appraisers as being the information contained in the books to their right as they testified?

Mr. Turner: Are they admitted, Your Honor?

Commissioner Geiger: They are admitted.

And thereupon the exhibits last above referred to are admitted in evidence on behalf of The Columbus Gas & Fuel Company and are herewith submitted and marked respec-

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[fol. 1818] tively Company Exhibits Nos. 141 to 149, inclusive.

Mr. Turner: Now the Commission has expressed a desire to have a geologist on the stand and we have brought a geologist here, and we have brought what, to The Ohio Fuel Gas Company, are some very, very valuable maps, and I borrowed them. I do hope we can avoid putting them into evidence; they are the work of years; but be that as it may, they are here.

Now, before examining him on them——

By Mr. Turner:

Q. I want to ask you if you have with you a sample of the Clinton sand such as come from the wells in Ohio?

A. Yes, sir, I have.

Mr. Turner: I don't know whether you want it in evidence or not but we will identify it as Company Exhibit No. 150.

And thereupon the sample last above referred to was marked for purposes of identification herein as Company Exhibit No. 150.

Q. I hand you what has been marked for purposes of identification as Company Exhibit No. 150, and ask you to state what that is?

A. This is a rather typical example of the Clinton sand as it is found in Ohio. This fragment apparently was blown from a well when the well was shot. The Clinton sand is usually rather a fine grained consolidated sandstone.

Q. Now what studies have you made of the gas lands in the State of Ohio?

A. I have made several studies of the gas lands in the State of Ohio, and many of which have been very carefully

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[fol. 1819] worked out from the data at hand—all available data.

Q. Over how many years?

A. My first work in Ohio I believe was in about 1922.

Q. And have you——

A. And almost, I should say with the exception of a year or two out of it, I have been on it almost continuously.

Q. What are the producing gas sands in Ohio?

A. Taking Ohio as a whole there are several producing gas sands. In eastern Ohio you get quite a series of them, such as the Cow Run, Macksburg, Kenner, Maxon, Injun, Berea, Newburg, what they term as the Niagara Lime, Clinton, Medina, and some Trenton.

Q. Is that all now?

A. It is all I think of at the moment.

Q. Taking The Ohio Fuel Gas Company's properties, from what sands are they generally getting their gas?

A. Generally the two main sands in which The Ohio Fuel Gas Company obtains its gas in the Berea and Clinton. However, they have production from most of the other sands that I have mentioned.

Q. What is the commonly accepted best producing sand in Ohio, the Clinton or the Berea?

A. Well, of those two——well, now, that question is a little confusing to me; do you mean by that the best and most wide-spread or the most prolific in a particular area?

Q. Let us take it both ways; the wide-spread first?

A. The Clinton is the most wide-spread.

Q. Which is more prolific?

A. Well, in places both are equally prolific.

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[fol. 1820] Q. Which is the deeper, the Clinton?

A. Yes, sir.

Q. Now have you prepared maps showing all of the known or generally known gas lands in Ohio?

A. I have prepared maps showing the gas pools in Ohio.

Q. The gas pools in Ohio?

A. Yes, sir.

Mr. Turner: Now if I could get the Commission to step down here to this table, because they are too big to hold up.

Q. Now, Mr. Roth, will you step down here and so that Mr. Okey can get it, do not travel either too fast or too slow but tell me what you have here; in the first place, in a general high-spot way tell the Commission which side of the State of Ohio this is, if either?

A. These two maps—there is one beneath this—take up what we generally call the Central Ohio gas belt. This particular area that you are looking at, that is Cuyahoga County; The City of Cleveland is designated there; this is Medina County, Summit County, and over here is Portage.

Now this map is laid out on U. S. G. S.—United States Geological Survey scale; their maps are used as the best. The wells are spotted on here accurately; I mean by that, they are properly scale on the map; the numbers are designated properly; all dry holes are shown, as well as productive wells.

Now to bring the thing out so it can be seen, the pool condition I have colored in there, using a yellow color for the various pools as they lie in the State.

Now you will note that you have a series of pools extending north and tending towards the northeast.

You will note that in this series of pools you have some cross pools running in that direction.

Q. What direction? Don't say "that direction."

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[fol. 1821] A. In a northwesterly and southeasterly direction; that does not always hold true, of course, but in certain localities they tend that way.

Now when studying such a proposition you usually get that trend of things and that is one of the things drillers use a good deal, or operators, in following out from one location to another.

Q. You have a lot of numbers there; what do they signify?

A. Well, merely to give each pool a particular number in that case—or series of pools.

Q. These numbers opposite the wall, I mean?

A. Oh, I see; that is the well serial number, and the "O" in front of it, of course, designates gas.

Q. The Ohio Fuel Gas Company's serial number?

A. Yes, sir.

Q. Now I want to know if everybody's well is on there as well as the Ohio Fuel Gas Company's?

A. Yes, they are.

Q. What is this piece right here; what does that indicate, this piece over in Franklin, Green and Lawrence Townships in Summit County?

A. That is a pool that Mr. Brendel developed a few years ago and——

Q. That is what was referred to here as the piece that Brendel recently sold?

A. Yes, sir.

Q. Where are your 4 with reference to that?

A. We have considerable 4 in Jackson and Stark.

Q. And have any of the wells been producers in 4 in the last 23 months—in that 4?

A. Very recently the company have drilled some wells on No. 4 in that particular township.

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[fol. 1822] Commissioner Geiger: This map that you show us does not disclose the location of what is designated as No. 4 in these pools; do I understand it designates developed and clearly outlined pools?

The Witness: That is more it, Your Honor.

By Mr. Turner:

Q. Class 1, does it show anything other than Class 1 and 2?

A. No, Class 1 and 2, 3 and 4 would lie in an intermediate zone.

Mr. Turner: May I call Your Honors' attention to these pools in reference to what one of the witnesses described as the Canadian Lakes, sort of Finger Lakes. You see how

it is possible to have pools all around and some dry territory?

Q. Now take this smaller map and tell the Commission how that reflects on these two larger maps?

A. This is a small scale map which shows the territory that you noted on there in the pools marked red and blue here together with the third class area zone or acreage zone which is marked brown here. The fourth class would be other acreage to be shown in white here.

Now I will draw your attention to some other interesting things here. Here is a second Berea pool opened up some years ago which is about 30 miles or so of almost uninterrupted second Berea production.

Q. Where is that located; give the townships and counties?

A. Well, it extends through Athens and Morgan counties.

Q. All right; when you point to anything, try, Mr. Roth, to indicate the townships or county.

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[fol. 1823] A. All right. Now over in southeastern Ohio, Belmont County and Monroe and Noble and Washington Counties, etc., is where you find the shallow sand so-called gas; there would be those sands I mentioned, like the Injun, Keener, Maxon, etc. In central Ohio from Lawrence County almost due north extending slightly towards the north or northeast towards the Lake is the Clinton sand belt with some Berea.

Commissioner Bricker: Are the Clinton and Berea sands to be found in Belmont, Guernsey, Noble and Monroe Counties?

The Witness: Yes, sir, the Berea sand, in Belmont County, is quite productive; the Clinton sand is, to my knowledge, not productive in that particular area, although tests reveal its presence.

Commissioner Bricker: What about the wells over in Guernsey County; they are marked as Class 1; are they in Clinton sand or Berea?

The Witness: This area that I am pointing to on the western side of Guernsey County, that is a pool commonly called the Niagara Lime Pool; it is a sand body found in the Niagara Lime at a depth of, as I remember, 125 feet in the big lime.

Commissioner Geiger: May I ask one question? I want to ask about your legend here on the map; it shows green, which indicates on the map an oil area?

The Witness: That is true, Your Honor; there is a big oil strip going up there, several oil belts through Ohio.

Commissioner Geiger: Well, judging from a first view of the map we might draw the conclusion that while oil and gas may be in close proximity one to the other, they do not, as a matter of fact, appear to overlap so that one may be

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[fol. 1824] designated both oil and gas territory; that may possibly be due to an ability to draw the map; it does show in Morgan County oil and gas actually imposed one on the other, and probably in other counties.

The Witness: Yes, in some cases they are more or less interconnected, yet, as a rule, your oil belt is primarily oil and your gas primarily gas.

By Mr. Turner:

Q. Now, right at that point, I want to call your attention to this exhibit and explain that to the commission so their questions may proceed further along the line they started a moment ago.

A. This map represents——

Commissioner Geiger: Give the number.

Mr. Turner: There is no number; we did not number them.

Commissioner Geiger: All right.

The Witness: (Continuing:) Represent a cross sections drawn from—we will say from Mansfield in Richland County southeast to Belmont County; it shows the stratified nature of the formations in Ohio.

The diagram shows by name and by symbol the various sands, how they lie with respect to one another; for example, I will go down the list; we have the buel run sand, First Cow Run Sand, Second Cow Run Sand, First Salt Sand, Second Salt sand, Maxon Sand; that is often spelled Maxton; keener sand; Big Injun sand; Squaw sand; Berea sand, and then there is a thickness of what is usually termed Ohio shale; then you come to your Big Lime, then your Clinton shale, and then your Clinton sand.

Q. Now give the scale or thickness of those various sands?

A. Well this is almost too small a scale to designate that.

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[fol. 1825] However, I would think taking sands as a whole in our territory, they would average perhaps 15 feet.

Q. Now I want you to turn to the lens in this big map from which this lens was taken.

Mr. Butler: Mr. Turner, aren't these to be marked as some number?

Mr. Turner: Well, it is probably an awkward way to conduct an examination but I did hope to keep them out of the record, because I borrowed them on the express promise that I would get them back to them. However, these may be marked Company's Exhibits 151, 152, 153, 154 and 155.

And thereupon the maps last above referred to are marked for purposes of identification herein as Company's Exhibits Nos. 151, 152, 153, 154 and 155.

Q. Mr. Roth, counsel for the City have been properly requested that these exhibits be marked for identification at least, and your answers and statements regarding the big maps were with reference to Company Exhibits 151 and 152, were they not?

A. That is right.

Q. And they are the ones that delineate these pools?

A. Yes, sir, that is right.

Q. And Company Exhibit No. 153 is the one that shows in a more condensed way the State of Ohio in colors?

A. That is right.

Q. And Exhibit No. 154 shows the stratification?

A. That is right; cross section.

Q. Cross section of the stratification. Now Company

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[fol. 1826] Exhibit No. 155 is the lens about which I began to ask you. Now I want first to have you find in either Exhibit No. 151 or 152 this lens that is shown in 166?

A. I have that point now; it is in Monroe Township, Richland County, extending over into Green Township, Ashland County.

Q. Now I wish you would take this Company Exhibit No. 155 and explain it to the Commission with reference especially to Nos. 1, 2, 3 and 4 classification of leaseholds.

A. You will note first the difference in scale, the scale of this map——

Q. That is No. 151 you are speaking about?

A. Yes, sir; the scale on Exhibit No. 151 is one mile to the inch; the scale on Exhibit No. 155 is about four inches to the mile; that is, in other words, Exhibit 155 is about four times the scale or size of 151.

Now in order to bring out the lenticular nature of the Clinton shale, I have prepared here an exhibit that demonstrates that feature. I have shown here by using a line of equal thickness the condition of the lens; for example, starting on the south side of the exhibit we have no sand designated here.

Q. How do you know that there is no sand there; tell the Commission that.

A. Wells have been drilled and reveal that fact, "sand missing," or a shell; that is a term used by drillers to designate a thick usually hard sandy member.

Going north you have five feet of sand and ten feet of sand and fifteen feet of sand and the central part of your lens for the most part being about fifteen feet in thickness.

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[fol. 1827] Now going further north you find the sand diminishing again from ten, five, two to nothing, so you have a lens as you ordinarily think of a bi-convex lens as used in glasses or in other scientific instruments.

Another thing I would like to draw to your attention right now is——

Commissioner Geiger: What represents that lens—sandstone?

The Witness: Yes, it is a body of sandstone.

By Mr. Turner:

Q. It is an inverted bowl or anything like that?

A. It might be in that nature but I could not say as to that; it would take a little more study.

Q. All right; you were about to point to something up here on the northeastern side of Exhibit No. 155.

A. Now on the northeastern side of Exhibit No. 155 you will note another well which shows 11 feet of sand, show that you are again coming into another lens here.

Q. Showing now on Map No. 151?

A. On Map 151; you will note the presence of that well and its relation to another sand body.

Q. I call you- attention to Company Exhibit No. 144 and ask you if you can identify that lens on page 376?

A. Yes, on page 376, about the eastern central—the eastern border on the central part of the map you will find the same body of which I have been speaking.

Q. The Central part of the eastern border, wouldn't that be a little better?

A. Yes, perhaps that is a little better.

Commissioner Geiger: Now, as I understand your ex-

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[fol. 1828] planation on 151, the yellow, which you have surrounded by a red line designates the proven position of the sand lens, is that correct?

The Witness: Yes, sir, that is correct.

Commissioner Geiger: And that the portions of the map showing in white between the different lens designated on that map are proven to be barren territory by the development in the other, or not?

The Witness: No, sir, that territory constitutes, what is termed in our exhibits as class 3 and 4 acreage, those intermediate zones.

Commissioner Geiger: Let me ask you this way then, you have said in your examination with reference to lenses which appear on 151 and 152 that the sand stone thins out at the edges of those designated lenses; then there comes a territory around the demonstrated lens which has not produced any gas; then you proceed to a position where the sand again begins to develop in another but not actually contiguous lens; in other words, as I understand your explanation, there is between these several lens- as marked in yellow on the exhibit a certain amount of territory that has no sand; the lenses are played out in those positions; is that correct or not?

The Witness: That is correct in many instances, but you could not say that it was correct in all cases, because as you go eastward the lensy nature tends to play out and then you begin to pick up pools in your sand body proper.

Commissioner Geiger: Well, how do you designate your —or differentiate your lens from your pools?

The Witness: I have not differentiated at all; those may

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[fol. 1829] be either a lens or a pool in the main sand body. Your leases are more likely to be on the western portion of your field due to the fact that it is getting thin and tailing out into the shale, as you go east where your sand thickens then you begins to pick up pools in the sand body proper.

Commissioner Geiger: And those pools extend over into both West Virginia and Pennsylvania?

The Witness: Well, now, we are speaking of Clinton sand here, and your Clinton sand in Pennsylvania is extremely deep.

Commissioner Geiger: All right.

By Mr. Turner:

Q. A question was asked you a moment ago, in substance, of why the proximity of No. 4 to No. 1; I am again handing you this page 376 of Exhibit No. 144, which was the map—which is the map of this piece in Monroe Township, Richland County, an Exhibit No. 151 inquired about and just from that land, if you can, go ahead and explain the classification of those lands?

A. You will note from the exhibit marked No. 155 that the sand has thinned or that the Clinton sand has thinned north and west; therefore it is quite evident that your pool will have no extension in that direction, so that has been classed No. 4; however, you may pick up another pool, but not the continuation of this pool.

Q. Now can you show the contiguity of No. 5 on this page 487 of Exhibit No. 144 to No. 1?

A. Well, in this case in the northwest corner of the area which I have explained some time ago we have No. 4 immediately against No. 1 acreage.

Q. And what is this brown here immediately against No. 1 acreage?

A. That is Third class.

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[fol. 1830] Q. Where on that page is second class?

A. In Section 14 we have one piece of second class, and also in Section 24.

Q. In other words the, in this—surrounding this first class tract in the middle of the eastern edge of page 376 we have both numbers, or all numbers 1, 2, 3 and 4?

A. Yes.

Q. Is that correct?

A. That is correct.

Q. Well, now, have I picked out something that is unique or is that typical?

A. That is rather typical.

Commissioner Geiger: Now may I ask just a question about the page to which you now refer, page 376; looking at the coloring upon that page we find that each color comes in sharp contact with some other color indicating some other class; now that is a designation of your leaseholds, is it, that your leases cover; it is not a designation of the gas content, is it, because it would not run on such well-defined lines?

The Witness: Your Honor, that is leases.

Commissioner Geiger: It shows the leases?

The Witness: We did not attempt to split small leases.

Commissioner Geiger: I see; those portions of your map that are shown on page 376 which are not colored in any of the four colors chosen by you are possibly or probably leased to some other oil company drilling in that territory?

The Witness: Yes, sir, oil or gas.

By Mr. Turner:

Q. Now I wish if you will, you would proceed to explain how the classifications 1, 2, 3 and 4 of the gas lands were made?

A. These classifications were made only after a very careful*y* study of the territory as a whole, and this map merely indicates——

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[fol. 1831] Q. That is 151 you are now talking about?

A. Yes, sir; merely indicates one of the steps, and one of the first steps taken was to prepare this map so designated, and on the work copy from which this is made, this particular map we not only show the features you see here but also what conditions we encountered when these test holes were drilled, and also the productive wells and dry holes. From that, and by using the rock pressure conditions, the production of wells, the amount of gas obtained per pound drop, whether your sands were thin or becoming broken, and many other features were all taken into account before the final classification was made.

Q. Well, perhaps the Commission and counsel on the other side will have more to ask you about that——

Commissioner Geiger: Let me ask one question right there. Looking at the map No. 151, it is demonstrated apparently that you can trace the proper outlines of what you there designate as leases, which leaves a considerable territory between the several leases which have been demonstrated to exist as territory which you should not longer continue under lease; that possibility or probability of hold gas does not justify a continuance of the lease and paying the annual rental on it?

The Witness: They are entirely justified in holding any of this acreage through that territory because you can step merely one location away from the designated or proven pool and pick up another lens, just one or two locations away.

Commissioner Geiger: What you intend then to convey is that while Exhibit 151 designates proven leases it does not definitely indicate that other territory which is not so designated on this map as being lens territory yet may in

3343

[fol. 1832] the future by future drilling and exploration produce definite lens territory?

The Witness: That is right.

Commissioner Geiger: That is correct, is it?

The Witness: Or these lenses may be greatly extended from what I show here.

By Mr. Turner:

Q. In other words, you have here shown the leases as you have found them at present but they are not necessarily confined to these dimensions?

A. No, sir.

Q. Now Judge Geiger asked you about this page 376, as to whether or not there might be other gas companies occupying the white space or the uncolored space; and I call your attention to what you may explain just south of this No. 1 territory that we have been talking about and ask you what these things indicate?

A. They are dry holes, those two.

Q. Now that is dry holes *holes* in somebody else's territory?

A. Yes, sir.

Q. Now I come right over adjoining that territory and point out another well there; what does that mean?

A. That is an abandoned well.

Q. In somebody else's territory?

A. Yes, sir.

Commissioner Geiger: Well, would that fact that you have demonstrated dry holes and also abandoned territory in what is not colored, would that indicate that there might be or probably is additional dry hole territory which you now have colored either as 2, 3 or 4?. In other words, the fact that you have designated a territory under the numbers of 2, 3 and 4 by no means reaches the final conclusion that some of it may not have to be abandoned as non-

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[fol. 1833] productive territory; it may be non-productive territory as future investigation shall indicate; is that correct?

The Witness: Yes, as I understand your question, that is correct.

Mr. Turner: Now, if the Commission and gentlemen on the other side please, we produced this witness because of the suggestion that you wanted to have here some geologist, and I am ready to turn him over to the Commission or to counsel on the other side.

Commissioner Geiger: Let me ask him a few questions which you have not gotten to and which I am personally quite interested in. What have you geologists determined to be the origin of natural gas and the reason of its being confined in certain territory?

The Witness: Your Honor, I think that is a good question. The generally conceived and adopted idea of geologists is that the gas has been manufactured from organic matters in these black shales surround- the sand bodies.

Commissioner Geiger: Above or below the particular sands?

The Witness: They may be either place.

Commissioner Geiger: All right.

The Witness: Now your sand bodies, being the more porous portions of your geological volumn, act as the

reservoirs in which this gas has found its way and is thereby trapped in these lenses and porous portions of the sand bodies proper.

Commissioner Geiger: Well, now as I recall my school geology only, what you have designated as shale has been

3345

[fol. 1834] the result of a deposit close to the surface of water, or whatever it may be, the ocean or fresh water edge?

The Witness: It is usually spoken of near the shore line where you have swamps and where organic mater is liable to and does accumulate.

Commissioner Geiger: And your theory is that by decomposition or chemical change of the organic matter near the edge of the water, but in the water, a gas has arisen which then will be confined in the superimposed or underlying sandstone.

The Witness: Yes, sir.

Commissioner Geiger: Well, now, that sand relatively to the shale is shallower or deeper water to the shale?

The Witness: Of course, to answer your question you have to go into a little history. While those formations were being deposited your Cincinnati arch was gradually rising, see?

Commissioner Geiger: Out of the ocean bed?

The Witness: Yes, or perhaps it may have been a land body and your ocean further to the east. Now as that came up and your sea came in and receded—coming in and receding kept depositing these various sedimentuary beds in which you get your gas, oil, etc.

Commissioner Geiger: Well, the gas never was developed in the sandstone; the organic matter lived in what now is shale?

The Witness: That is the general belief, or accepted belief.

Commissioner Geiger: And that being along the edge of or in shallow water permitted the growth of either vegetation or small animal matter?

3346

[fol. 1835] The Witness: Yes, sir.

Commissioner Geiger: And then the sand, when that sunk lower did the sand cover it over?

The Witness: Yes, the sand covered it and——

Commissioner Geiger: And your theory is that it may have receded, either the ocean receding or the land lifting, there may have been a series of strata which would be alternately sand and shale and where it is deeper the limestone—the limestone is the deepest formation?

The Witness: The fartherest into the sea.

Commissioner Geiger: The deepest at least?

The Witness: Yes; now there is one point I don't know that you have quite clear. The Cincinnati arch as it came up did not make gyrations like that but come continuously: Your sea, however, would recede and come back according to other land masses, how they were coming up or receding and——

Commissioner Geiger: I see. Now the sandstone being the reservoir, or we will call it the sponge which absorbs the developed gas, is there any well-marked course of that gas within the confines of the containing sandstone? Is there a trend of the containing sandstone or a dip or break or fault in the sandstone that would put gas at one place in the sandstone, and in the same kind of sandstone somewhere else there is no gas, and would that depend upon the production of the animal, or vegetable matter in the adjacent shale, or what afterwards developed to be shale? Do you get the point? The point is this, the fact that there may be Clinton or Trenton or Baron sand does not necessarily indicate that in that sand there will be found gas; there must be some other matters that control the develop-

3347

[fol. 1836] ment and the storage of that gas within that sand; is that right or not?

The Witness: Yes. I wonder if I might go into a little discussion of that?

Commissioner Geiger: Yes, it is very interesting to me.

The Witness: I have studies among other gas fields, throughout the United States some of the biggest Amarillo, Texas; Chickasha, Oklahoma, and others. Now that particular field there, Chickasha, is a very good example of structural control; by that I mean the rocks have been domes up and you have a water border; your gas has been confined to the uppermost portions of this structure and that is where you find it.

Now your Clinton sand is notably dry. I mean by that no water of any consequence whatever; so that water or structural control would have a lesser effect and the thing

that does control it more especially is the lenticular nature and the porous nature of your sand.

Now your Berea sand, it is more liable to be of a structural nature; by that I mean it carries water and you will find the gas where the rocks have been dammed up. That is more especially true in Eastern Ohio, as I recall it now, so that many of these points you have brought out may fit one place or may fit another, depending on the general nature of the geology of that particular region.

Commissioner Geiger: Well, now one other question for our information; assuming that any sand has within its structure a gas which is under high pressure, called I believe rock pressure, what is it that *con*tains it in that position against the pressure and its inclination to escape

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[fol. 1837] from its sand? Is it a superimposed rock or water or what?

The Witness: Well, no. You brought out a point a while ago which was not quite correct; you likened the sand to a sponge.

Commissioner Geiger: Well, that is *had.*

The Witness: That is not true at all because a sand is something that retains its form; it is very strong; it will uphold and keep its shape no matter how much pressure practically you place on it, so it always is a good, constant place there in which your gas can rest; you take the gas out and your sand remains just the same, and in a sponge if you take the gas out you would press it and have a lesser size. I do not know as I brought that out.

Commissioner Geiger: The point I want to get at is why does gas remain in the sand in the ground and under what conditions is it released when you drill? What keeps it in its position?

The Witness: Well, sand in the ground is normally under pressure which is very closely associated with hydrostatic pressure.

Commissioner Geiger: Well, is it under pressure from the gas or by superimposed structures of rock?

The Witness: Well, that is a little hard to explain. Rocks do exert a pressure and the lower and deeper you go into the earth the greater that pressure, due to the column above it, but it is found that when you find a gas body if it has a pressure closely to hydrostatic it is termed normal;

now you may find gas either subnormal or abnormal; a great many conditions enter into that. The Amarillo field,

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[fol. 1838] for example, is subnormal, but that is undoubtedly due to its very wide extent and it did not have complete saturation.

Here in Ohio the rock pressure runs very closely normal to your hydrostatic; the deeper you go the higher your pressure, especially in the Clinton zone.

Commissioner Geiger: Now one question you have not answered and I will quit. Now when the sandstone reposes untouched under the surface it is saturated, or at least contains gas?

The Witness: Yes, sir.

Commissioner Geiger: Then the drill touches it and the gas escapes through the hole that the drill makes?

The Witness: That is right.

Commissioner Geiger: What retains it in its position until the time the drill punctures something that holds it in position; what does the drill remove that permits the gas to escape?

The Witness: You might take the lens as an example; it cannot escape from the lens because there is no avenue of escape; it is trapped in the lens.

Now in the porous portions where you find the pools in the main sand body, it cannot escape because of cementation or the nature of the sand which surrounds the pool; it is trapped.

Commissioner Geiger: Well, it is under pressure there, isn't it?

The Witness: It is under pressure, yes, sir.

Commissioner Geiger: Well, something cements it in the lens?

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[fol. 1839] The Witness: All sand grains where you have a solid sand is either wholly or partially cemented; that is what holds it together.

By Mr. Turner:

Q. Now at that point tell him about what a cap rock is.

Commissioner Geiger: Well, I think we want to stop at this point. We will recess until two o'clock.

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[fol. 1840] Cross-examined by Mr. Butler:

Q. Mr. Roth, are you a member of the Columbia Organization?

A. Yes, sir.

Q. A part of the Columbia Engineering & Management Corporation?

A. Yes, sir.

Q. In the gas division?

A. Well, it would be gas division now, primarily.

Q. Are you under Mr. Welker?

A. I am really under Mr. Newman.

Q. And what is Mr. Newman's division called?

A. He is general auditor of the corporation.

Q. You mean you are in the auditing department?

A. When it comes to tax matters, we have a great deal to do with the matters pertaining to depletion.

Q. Well, are you carried as belonging to the department of audit or the department of gas engineering?

A. Well, I would say both.

Q. Both. What is your title?

A. Geologist.

Q. And what is your age?

A. 37.

Q. And how long have you been with the Columbia System?

A. A little over four years.

Q. You have been in the United Litigation in West Vir-

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[fol. 1841] ginia, too, have you not?

A. Yes, sir.

Q. You have testified in that case?

A. I presented exhibits similar to these in that case.

Q. And testified in the case?

A. Somewhat.

Q. Well, I read it last night, so there is no question about it. Well, if I understood your testimony in that case, you were, for the purposes of that case, a mere map maker. Does that do you an injustice in that case?

A. In that case I did prepare maps, and other data as well. Mr. Ralph Davis handled a great deal of this material in that case.

Q. Well, didn't you merely present in that case maps made up from his studies and from the data appearing in the books of the company?

A. Yes.

Q. Did you take any part in that case in the classification of leaseholds into Nos. 1, 2, 3 and 4?

A. We accepted his classification.

Q. I say, did you take any part in that classification?

A. I believe not.

Q. You have determined it for the purposes of this case?

A. I was assigned to do that work in this case.

Q. So that the classification of the Ohio leaseholds of the Fuel Gas Company now under consideration, their assignment to those four classes in a matter of your work?

A. Under the supervision of Mr. Don Wilson.

Q. Oh, he was your superior?

A. He was at that time vice-president of the gas company in charge of production. He had the final say as to the classification.

Q. Why?

A. Because of his position.

Q. Oh, I thought it was a matter of knowledge and not of

3353

[fol. 1842] position?

A. Well——

Q. What did position have to do with it?

A. Naturally position would carry knowledge.

Q. Oh, yes, does it?

A. In that case I believe so.

Q. Well, that may be in his case. He is rather well known as a man of ability, is he not?

A. In my opinion.

Q. A geologist like yourself?

A. I believe not.

Q. Well, I kind of thought that it was your theory that this classification is essentially the work of a geologist?

A. It is; but he had the final say of whether it would go into one classification or another.

Q. But if it is the work of a geologist, and if you were a geologist and they were not a geologist, tell the Commission why, if you know, he should have had the last word in determining it.

A. Mr. Wilson has had a great deal of practical experience in Ohio. He may have had some knowledge that I didn't have at my disposal. Generally speaking he agreed with the classification as I presented it.

Q. This is not the same classification that you used in West Virginia, is it?

A. As I understand it, it is very similar.

Q. Oh, yes, but not the same. Wherein does it differ; tell me.

A. It would differ in the nature of the two different states, the nature of the pool, would make it vary somewhat.

Q. You mean in the analysis of the qualities of characteristics that make class 1 leaseholds, class 2 leaseholds, class 3 leaseholds and class 4 leaseholds?

A. Well, it would depend more on the extent to which you

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[fol. 1843] carry it. You may have more definite information in West Virginia in some instances than you do in Ohio.

Q. You may have much less, too, in some cases?

A. Well, in certain places you might.

Q. Well, I had understood, possibly by inference rather than by what you said, that here in Ohio you have rather very definite information?

A. You have, in the productive pool zone.

Q. You limit yourself to the areas that have already produced don't you?

A. Not necessarily, although you have exceptionally good information in that particular area.

Q. Well, is class 1 in this case the same as class 1 in the United case, which also has come into this case?

A. Very similar except they had a bit more undeveloped in class 1 than we have in this case.

Q. A bit more undeveloped?

A. I mean drilled—in the sense of having wells drilled in the particular property.

Q. What is the difference between 2 in this case and 2 in the West Virginia Case?

A. They are similar.

Q. But what is the difference; I know they are very similar, but I am asking for the differences if you can give them?

A. I can't think of any material differences.

Q. Any differences in 3 in this case and 3 in that case?

A. Not materially.

Q. I am not saying that is not a fair answer, but I want to get a little further back; whether you really know of any differences, since you made the maps there and very materially determined the classifications here.

A. You must bear in mind that in West Virginia you have very large pools, and in Ohio here, especially in the

3355

[fol. 1844]. Clinton belt the pools are smaller and more completely drilled.

Q. That is in Ohio the pools are more clearly defined than in West Virginia?

A. No, I wouldn't say they are more clearly defined, but more closely drilled, followed our more generally.

Q. Well, I don't know what you mean by that, truly.

A. Well, I might explain it this way. Once a pool is discovered in Ohio they generally follow out in their drilling from one location to another, due to the nature of the country, the pooly condition. In West Virginia you will have a thick pool that extends for many miles. They will not start at one point and drill from location to location, but will drill all over the pool, leaving many places in the pool undrilled.

Q. Then to put it a little differently, in Ohio, as far as your pool has been developed, it has been rather completely developed?

A. I would say in making the comparison between the two states, it has; although there are many pools in Ohio that still have plenty of room for development.

Q. You spoke of wells drilled since June 30th, '29, and up to and including May 31st, '31. How many wells were drilled on No. 4 territory? I think you said 170?

A. I think that is right.

Q. Of which 80 were dry?

A. Yes.

Q. And 90 produced gas?

A. Yes, sir.

Q. How many oil wells were produced?

A. We omitted oil wells.

Q. I know you did, but I am asking, because you omitted it. How many oil wells did you produce?

A. I can't tell you offhand.

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[fol. 1845] Q. Well, you can get that for us surely?

A. Yes.

Q. All right.

A. You want the number of oil wells in class 4?

Q. Yes; in other words, the 170 didn't include all the wells, gas and oil, that were drilled; that is just the gas wells that were drilled?

A. That is right.

Q. In how many counties did you say those were; in how many counties were those 170 located?

A. I think 19—they were drilled in '21 but in 19 of them they discovered gas.

Q. In what two counties did you drill that you discovered no gas?

A. There was a well drilled in Ashtabula County, a dry hole; and in Guernsey County four dry holes were drilled.

Q. But in Ashtabula County you carry a very large class for acreage?

A. Yes, sir.

Q. 70,000 acres plus, all No. 4.

A. I think so.

Q. All taken up very late, wasn't it; taken up in the first half of 1929?

A. I don't remember the date, but I would say about that time, due to developments that took place in Ashtabula County.

Q. You don't have a producing gas well on that Ashtabula land, do you?

A. We don't.

Q. That is what I am saying. You don't do you?

A. No, sir.

Q. Is that one the only one you ever drilled there?

A. To my knowledge. I think years ago one of the companies did drill a well in Southeastern Ashtabula; drilled a dry hole.

Q. Dry hole?

A. There are producing wells in Ashtabula County, however.

Q. Yes; you drilled four in Guernsey that were dry holes?

3357

[fol. 1846] A. Yes, sir.

Q. You have a very considerable number 4 acreage there, pretty nearly 64,000 acres?

A. I think that is right. I take it you are reading those from the book there?

Q. Yes, yes. How many did you drill in Lake County?

A. None.

Q. Not any; although you have 11,000 acres plus of No 4 territory, not any in the others you didn't have a producing well in that county?

A. Not to my knowledge.

Q. Geauga County; how many did you drill there during this period of which you and I are speaking?

A. None.

Q. You seem to have almost 49,000 of No. 4 acreage there, and none belonging in the other and you haven't a single producing well in that county, have you?

A. Not, sir.

Q. You drilled a number in Stark County, did you not, in this period?

A. The Stark County wells have been drilled since this was made up; within the last month or so.

Q. But up to the time that you are presenting data, May 31, no well had been drilled there?

A. No, sir.

Q. I think your No. 4 acreage is about 26,000 in that, nothing in the other three. You must have gotten confused. Trumbull County; you did have a number of wells drilled there in that period I think, did you not?

A. In Trumbull?

Q. Yes.

A. No, sir.

Q. Well, there is 41,000 No. 4 acreage, and you didn't put a well down?

A. No.

Q. You don't have a single producing well in that county?

A. No, sir.

Q. Well, surely you did in Summit; you drilled in Sum-

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[fol. 1847] mit didn't you?

A. In Summit we drilled two wells in the third class.

Q. You have 395 acres in the third class, and you drilled two wells, and they are both producing wells, as I understand it?

A. Yes, sir.

Q. But you didn't drill any in your No. 4?

A. No.

Q. In Summit you seem to have no No. 1, no No. 2, 395 of No. 3 and almost 22,000 of No. 4; and in Summit County you had no wells until you drilled in those two in that 396 acres?

A. I don't recall of any.

Q. Well, the record—you may verify that if I am wrong I don't want to mislead you; probably the gentleman will follow me——

Mr. Turner: You have our books; we are trying to get the date from your photographs.

Mr. Butler: Yes, I think that gives it.

The Witness: We apparently had none in Summit County.

Q. You are developing very considerably in Lawrence County, now are you not?

A. Oh, I wouldn't say very considerably. We are developing some in Lawrence County.

Q. How many in the No. 4 territory did you drill during this period of which you and I are speaking?

A. In Lawrence County?

Q. In Lawrence County in the No. 4 territory?

A. We drilled four productive wells.

Q. In Class 4, which is almost 123,000?

A. Yes.

Q. Did you get any dry holes in that county, by the way?

A. We got a dry hole in class No. 3 also a productive well in class No. 2.

3359

[fol. 1848] Q. But you got no dry holes in 4?

A. No, sir.

Q. And in Gallia County you have also been making considerable development have you not, during that period?

A. No, I don't have any record of that.

Q. Didn't you drill any there?

A. I have no record of it.

Q. You have got 100,000 acres of No. 4 territory, and during that period you didn't drill any?

A. I believe not.

Q. Since you have brought this data into the case, and I am not complaining about it, is it possible for you in some form that will dovetail into these other exhibits, show the wells that you drilled during this period beginning June

30, '29, by counties and townships and leases, and whether 1, 2, 3, 4 class acreage?

A. I can do that, sir.

Q. It seems to me that will save a very great deal of time; because take the exhibits that you have here, we found when we got into them the other day that a page of these summaries will tell more than you can bring out in a day's cross-examination. Now, will they show also the pressure, the character of the wells——

A. I can prepare that, sir.

Q. And that would show your dry holes also?

A. Yes, sir.

Q. And you could put your oil wells on that, too, can't you?

A. Yes, sir.

Q. Now, the point of that is, Mr. Roth, I don't know that that will aid us or hurt us, aid you or hurt you, but I do know that when we get that exhibit worked out as you gentlemen can work it out, we can tell from our point of view just what reflection it has, if any, upon all of the other matters. Do you know how the company carries the lands

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[fol. 1849] on their books, I mean leasehold land? I assume that you and I agree they carry them as operated and unoperated?

A. That is correct.

Q. Well now, when you strike a dry hole on No. 4, what did you do with that acreage; cast it out, take if off your books?

A. Not necessarily.

Q. No, not necessarily. What did you do with it?

A. If the management decided that the lease had other prospects they renew it; if they decided one test was sufficient, they probably surrendered it.

Q. Well now, in all those dry holes that you drilled, what did you do with the acreage; just tell us what did the management do; did they still hold it?

A. Oh, I can't answer that offhand, I would have to look that up.

Q. Well, I should be very much interested in that. Well, I assume that when you were successful and struck a gas well, you turned that acreage into operated acreage then?

A. That is the procedure, yes, sir.

Q. How many acres do you carry that way into your operated acreage; the whole lease ordinarily?

A. I believe they do, ordinarily so.

Q. Well, that is my recollection of what Mr. Seyffert told us?

A. Yes.

Q. I fancy that you are not quite in accord with anyone who would call some of your territory wildcat territory?

A. I don't approve of that term.

Q. But you have to hear it occasionally?

A. As all of this territory is prospective.

Q. What is wildcat territory, from your——

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[fol. 1850] A. Oh, from my point of view, if you went into the center of Canada some place and put down a well, that would be a wildcat, not knoing anything about it.

Q. Have to go that far before you could get wildcat territory; won't you bring it a little nearer in, Mr. Roth?

A. Well, this whole Appalachian region is pretty prospective.

Q. Well, I observe in going through the United record that sometimes a witness has spoken of wildcat territory. They were talking about West Virginia or Kentucky territory.

A. You would have to know what the witness had in mind when he used the term.

Q. It is all a point of view after all?

A. Might or might not be.

Q. In other words, if I can define my wildcat properly you don't object to putting it into No. 4. I get your point of view, Mr. Roth; I see what you mean. I assume that it was upon your advice, or at least upon your report and advice and approval that this large amount of territory was taken up along in Northeastern Ohio in 1929?

A. No, sir.

Q. You didn't——.

A. No, sir.

Q. As I remember, 140 or 150,000 acres, and as I remember your company, this Fuel Gas Company, at that time had no developments in that part of Ohio?

A. Our companies did not.

Q. Did you frame the language under classification of leaseholds that is found in Company's Exhibit 141, sum-

maries of gas wells and gas lands, class 1, class 2, class 3, class 4? Is that language yours?

A. No, sir.

Q. Whose is that?

A. I think that is the language that was used on the Logan rate case some years ago. I am not sure who framed it.

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[fol. 1851] Q. But as I understand, you accept responsibility for it just as much as if you had classified it?

A. The classification as carried out in these exhibits followed along that classification very closely.

Q. Well, you mean a little more than that in all fairness to yourself, you mean that they follow this as closely as human elements in your organization could classify them?

A. That is practically it.

Q. Yes. Well, take class 4; land situated within the area of territory where gas sands are known or assumed to exist from general geological conditions, but which are so remote from actual gas producing wells or territory that they are merely prospective gas lands. What do you mean by merely prospective gas lands?

A. They are lands which according to the developments as they now stand do not have a great deal of bearing on this particular type of acreage.

Q. That is you mean the developments that now exist have very little effect upon this No. 4 acreage?

A. That is practically true.

Q. If I understand your testimony this morning, and your maps, the gas production in Ohio while necessarily coming from some of the lands which you have enumerated, is still largely a pool production, isn't it?

A. Well, as I see it, it all comes from pools, pools of varying sizes.

Q. Yes. On Company's Exhibit No. 153, Ohio Fuel Gas Company; map of central and eastern Ohio showing classifications of acreage as of June 30th, 1929, are shown on a small scale the pools which you discuss as shown on your larger map. This Exhibit 153 is not intended to show

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[fol. 1852] merely the gas producing areas of your company but also all of the gas producing areas?

A. That is right.

Q. Yes. Of course, you have shown your Class No. 1 and your Class No. 2 and your Class No. 3 and your oil area. Now, do I understand you to interpret or want us to assume that all of that white area in eastern Ohio easterly from those pools which seem to stretch from Lake Erie to the river is class 4 acreage?

A. I don't know that I quite understand your question, but you mean that that is not shown in color there?

Q. All land not shown as 1, 2, 3 and oil area.

A. That is practically true, it is the class 4 area.

By Commissioner Geiger:

Q. What is that; all that is not colored at all is class 4 area?

A. It would be classed in the class 4 area if we held it.

Q. Even though it may have been developed or drilled by other companies?

A. Oh, no; their acreage, of course not. But he is speaking about acreage not developed; all that is not developed. If it were developed it would carry a higher class.

Mr. Turner: May I suggest that abandoned lands are also there, not colored as well as No. 4?

By Mr. Butler:

Q. Having reference now again to this Exhibit 163 and looking at the colors, stretching from Lake Erie to the Ohio River, showing pools of gas which you call 1, 2, 3 and oil which you show as oil area; all of that area in white extending east to the eastern boundary of Ohio in a general way you would regard as coming within the definition of No. 4 acreage?

A. All that is colored white there.

Mr. Butler: Yes, that is what I mean.

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[fol. 1853] By Commissioner Geiger:

Q. Then how far would class No. 4 which is white east of the colored part go west of the colored part?

By Mr. Butler:

Q. Just changing the point in the other direction?

A. Well, any acreage we held outside of that colored zone would naturally be placed in the 4 class.

Q. I know; but I am asking you generally, looking at this map stretching from Lake Erie to the south with these pools, looking at the white territory west of that chain of pools; how much of that territory in that white territory would you regard, whether it belongs to you or anybody else, as proper No. 4 acreage?

A. As the acreage is classified, that is the only place we could place it. As a matter of fact, very little acreage is held for oil and gas purposes in that particular are- you mentioned, because practically all of the sands which we now have production from has tailed out or become missing in that general territory.

Q. Then as a general principle this sharply defined western line of the pools is the limit of all acreage 1, 2, 3 or 4?

A. It is primarily so. There may be some out in there, but as a rule they don't hold a great deal of acreage in that particular area. There are some pools out in there, but as I said before, your sands are so liable to be missing that it doesn't look like very good gas territory.

Q. But if you had to put the acreage anywhere west of the line of the pools, it would certainly, generally speaking, be no better than No. 4 acr-age, would it?

A. It would certainly be no better.

By Commissioner Geiger:

Q. Do I understand you to say that all that is now colored 3365 [fol. 1854] white of the line of color to the Ohio line, you would class No. 4?

A. All west.

Q. Yes.

A. Yes, I would say.

Mr. Turner: That doesn't mean, Your Honor, that that is owned by the Ohio Fuel Gas Company?

The Witness: No.

Q. It is just prospective territory?

A. Prospective territory.

By Commissioner Bricker:

Q. Have those sands completely tailed out, as you say, in Franklin County and Delaware County and the section up the Scioto?

A. Oh, you would be about right in saying yes. Your Clinton sand tails out into the Trenton shale, and when you get beyond that, it is usually the Trenton shale formation which may contain a little sand body here and there, but as a major body it is missing.

Q. There is no sand below that then that contains any oil?

A. The Trenton sand, but it has been pretty well prospected, and in northwestern Ohio has produced a good deal of mostly oil.

Q. Well, the Trenton sand underlies the whole territory in central Ohio?

A. It is the Trenton limestone instead of sand. It underlies the whole region.

Q. Is there any other sand or strata below the Trenton limestone that is gas producing?

A. Of course; the formation of the Trenton which does produce sometimes is the St. Peter sandstone which lies near the bottom of your Trenton formation, and in occasional places they have picked up some oil and a little gas, but not in appreciable amounts.

Q. And below that then you still have the more solid

3366

[fol. 1855] formation?

A. There was a test made over near Dayton; they drilled through the Trenton, as I remember, and did find sedimentary rock beneath the Trenton.

Q. Well, there is, as I understand it a lower stratum in Pennsylvania that does produce gas, isn't there?

A. No, sir.

Q. There isn't?

A. You have the oldest geological producing formations here——

Q. When you strike these lower sands?

A. Yes. You see your Trenton is Ordovician, one of the oldest geological ages in which you get oil or gas that I know of. Now, from that up——

Q. You come on up?

A. Yes; your Clinton is in the Silurian. Most of the Pennsylvania production is in the Devonian, and in your Carboniferous, of which Mississippi land Pennsylvania make up a great series, but when you get below the Ordovician here in the east, it is very, very speculative.

By Mr. Butler:

Q. Has your company ever used the divining rod for locating gas wells, or this infallible instrument that was supposed to have been patented a few years ago?

A. I don't know, sir.

Q. I hold before you the map with which you are very, very familiar, Company's Exhibit No. 139. Now, the truth is that substantially the total of your No. 4 acreage is east of this line of pools?

A. That is right.

Q. And you have very little to the west, haven't you?

A. That is right.

By Commissioner Bricker:

Q. As we look at that Exhibit 150, and not being able 3367 [fol. 1856] to comprehend entirely the meaning of rock pressure, I wonder what proportion of the gas is taken out when a well is pumped in that quality of stone?

A. I am sorry, but I don't believe I understand the question.

Q. Is there any gas left after you quit pumping a well; how much gas would there be left?

A. Where the mechanical condition of your well is O.K. —I use that expression as all right—they will use a well until the pressure is down, perhaps, around I will say roughly 50 pounds rock pressure or lower.

Q. Well, by volume then at normal pressure, surface pressure, what would be the amount of the gas originally contained in the rock which was left?

A. I can't say off hand, just the amount. It would be a very small proportion.

By Commissioner Geiger:

Q. Under what pressure?

A. Around 25 or 50 pounds rock pressure.

Q. You mean by that pressure above atmospheric pressure?

A. That is usually spoken of as above atmospheric pressure.

Q. Well, wouldn't that, according to the Boyle Law, mean a pretty considerable volume of gas still in there?

A. Well, that depends. If you have a pool which has been very prolific, produced a great deal of gas per round drop, then it would mean, of course, than in a pool where your production per pound drop was less. The pressure itself doesn't necessarily indicate the total gas content; it is a relafive thing.

Q. With Mr. Turner's consent, and he never refuses it in the afternoon, will you give us a copy of this Exhibit 153 and this Exhibit 139, because it seems to me that we can well avoid taxing you with these others, they will be available if we want to examine them; they couldn't be

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[fol. 1857] photostated to any advantage, could they, in a reduced size?

A. Not especially.

Q. And if it were would it essentially differ from 139?

A. No; you have got practically in these little red areas, the blue, about the same information.

Q. In other words, unless we keep that scale, we don't get anything different from this?

A. You will get practically the idea right from here.

Mr. Turner: Mr. Butler, it will take quite a long while to color one of these maps, 139.

By Commissioner Geiger:

Q. A photostatic copy would not show color?

A. No, sir.

Mr. Butler: When you speak of geological considerations as applied to these Nos. 1, 2, 3 and 4, you mean the presence of sands out of which gas is taken?

The Witness: That would be one thing merely. The condition of your sand, its depth, the strike of your beds, the rock pressures, all of those things are a geological element.

By Mr. Butler:

Q. Were you a witness in the Logan Gas Company case?

A. No, sir.

Q. Did you assist in preparing that material?

A. I was working for Mr. Ralph Davis at that time, and I did not assist any in the preparing of the exhibits; merely in the manner in which he testified.

Q. But you are familiar with the Logan territory?
A. Yes.
Q. That is now merged into this Fuel Gas territory?
A. Yes.
Q. And was the Logan territory, speaking generally, of
3369
[fol. 1858] the same general character and quality as the Fuel Gas Company?
A. In the territory in which they operated, yes.
Q. Did they operate in nearly all of the counties where the Fuel Gas now operates?
A. They operated in a great many of the counties, but not to the extent in some counties that the Ohio Fuel Gas Company operates.
Q. But they were in practically all counties where the Fuel Gas is operating?
A. As I remember, in the principal counties.
Q. Yes. You have made studies as to the remaining gas content of your present operating plans, have you not?
A. I have made some study along that line, yes, sir.
Q. And I inferred that you had made them for governmental purposes?
A. Well, various purposes that the company had use of them.
Q. Have you those available?
A. I have nothing in any definite set exhibits or forms available, no.
Q. Well, you have the facts available?
A. Yes; Mr. Davis made a study of the gas reserves.
Q. Yes, but he is not here. When did he make that?
A. At the time these exhibits were being prepared.
Q. So he worked on these exhibits, too, these present exhibits?
A. Not materially on these. He made up separate exhibits on gas reserves; estimated gas reserves.
Q. For the various classes of leases?
A. I think so
Q. Do you have those?
A. I do not have them.
Q. You had advantage of them in making your study?
A. Well, the reserves didn't enter into that at all.

By Commissioner Geiger:

Q. Why not?

A. Well, we didn't Your Honor, set up any estimate of

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[fol. 1859] reserves. We merely set up the data such as pressure data, production data and so forth.

Mr. Turner: The United Fuel Gas Company case has been decided; that is one reason, Your Honor.

By Mr. Butler:

Q. Well, in studying the history of the wells and of the production and of operated acreage, didn't you ever find it necessary or desirable to determine the reserves still in those operated acres?

A. Yes, we have such data and maintain pretty good records on that sort of thing.

Q. Well, I should like to have those studies; bring them in. How do you distinguish between class 2 and class 3?

A. Pardon me?

Q. Yes, I understand. How do you distinguish between class 2 and class 3, Mr. Roth?

A. Class 2 acreage, in my opinion is a part of the now existing productive pools. Class 3 acreage may or may not be a part of the now producing pools. Class 3 as a rule is a little farther removed from the actual pool as I see it.

By Commissioner Geiger:

Q. Well, you say that class 2 has no producing wells?

A. Class 2 as of the date of these exhibits had no producing wells.

Q. Well, who prepared these definitions of classes of leases that you have here numbered 1, 2, 3 and 4?

A. Well, I believe No. 2 states that it has no producing wells drilled thereon.

Q. "Which do not have any productive wells drilled thereon." Now, as I understand you to say that class No. 2 has some wells on it in your estimation?

A. Well, at the present moment, yes, sir, but not as of the date of these exhibits.

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[fol. 1860] Mr. Butler: I think the exhibit that he is to prepare will, in a very marked way, answer much that I intended to ask.

By Mr. Butler:

Q. What do you mean by hydrostatic pressure? I asked some gentlemen, and they didn't seem to know. It is for their benefit that I ask the question.

A. Hydrostatic pressure is a pressure exerted by a column of water. It amounts to about 42 pounds for every 100 feet of vertical distance.

Q. In other words, when you say the rock pressure is about equal to the hydrostatic pressure, it is equal to what that would be if you had your column of water to that depth?

A. Yes, sir. Supposing now——

By Commissioner Geiger:

Q. You don't mean that. You mean rock pressure as applied to the pressure imposed by the rock itself, and not rock pressure on anything to do with gas pressure.

A. Well, as I stated this morning, the rock pressure as it usually applies to gas, is very closely allied to hydrostatic pressure.

Q. All right.

A. For example, if you drill a well, we will say 400 feet deep and we will say it has a normal rock pressure of about 420 pounds, that is 42 pounds for every 100 feet.

Q. Then let me get you right on that. My understanding may be entirely wrong, but rock pressure on a gas well at the mouth of the well or measured by your instruments, depends upon the pressure of the gas that is contained in the sand which is seeking escape and which is registered on your instrument, is that right?

A. That is right essentially.

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[fol. 1861] Q. Now, you say that rock pressure depends upon the superimposed mass of rocks; the deeper it is down the more rock pressure you will have?

A. That is generally true. The deeper down it is, also the more hydrostatic pressure you have. A geological column of rocks, of course, exert pressure due to their weight, and as far as gas is concerned, that may or may

not affect it; but as I have stated, where gas has been found it usually is associated with the hydrostatic pressure, rather than the overlying rocks, what pressure they exert. It is something that as far as I know has not been definitely determined. The gas is subjected to this pressure and is usually found under pressures that are very close to hydrostatic.

By Mr. Butler:

Q. Putting it a little differently, the fact that your so-called rock pressure and the hydrostatic pressure are about the same, scientifically has not yet been solved. Those are facts, but just why they are facts you don't pretend yet to say, do you?

A. No.

By Commissioner Geiger:

Q. Well, isn't this a fact, that your hydrostatic pressure depends upon the depth of your point below the surface, and the weight of a column of water to that distance down?

A. That is right.

Q. And your rock pressure depends upon the then existing pressure of gas contained within the rock?

A. Yes, sir.

Q. And that your rock pressure will vary; and as soon as the opening is made to allow that surplus pressure to escape, your rock pressure drops?

A. Yes.

Q. So how can it have anything to do with the hydrostatic pressure that is fixed and never changes; and the

3373

[fol. 1862] rock pressure of gas which immediately begins to change as soon as it begins to be released?

A. Well, I spoke of it under normal conditions when you find it. Now, immediatly when you begin to use the gas out, then your pressure goes down.

Q. Well then, they can't possibly have any relation to each other, because they immediately begin to change as soon as you take the pressure off of the gas and let it out, it begins to change.

By Mr. Butler:

Q. Do you happen to know the proportion of dry holes and good wells in 1930; the calendar year of 1930?

A. No, I don't have that.

Q. Since you have given these percentages which relate to periods that are not calendar, I think with this memoranda that you are preparing you might as well give us the figures for '29 and for '30; that is for those two calendar years. I think that will come a little more nearly giving the true picture?

A. All right.

Q. I was about to ask you concerning Ashtabula County and why those lands were put into No. 4, but there is probably no need of it because of what you have said, that any of those lands to the east of the general line of pools, if leased by the company, could properly be taken into No. 4?

A. Yes.

Q. As an illustration of your method, I wish you would step here to the desk a moment. Here in Orange Township, Ashland County, up in the northwest corner, I am pointing to a tract of No. 4. Now, just tell the Commission how you settled in your own mind the classification of that tract and the classification of the surrounding tracts.

A. I settled in my own mind, placing in fourth class, due

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[fol. 1863] to the fact it had three dry holes either surrounding it or on it. Here is one here, one on the south side of the tract and — on the tract directly north of it.

Q. Well, why should it have been carried as the fourth class after all that; hadn't it been given its chance?

A. Do you mean why do they still carry the acreage?

Q. Yes.

A. It still has a fair chance of becoming productive, because it lies almost contiguous to producing pools.

Q. Well, you have tried it south, north, east?

A. Yes, sir.

Q. And why would you think that there is a chance for it; how many acres, by the way?

A. 160 acres.

Q. 160 acres, and you still think——

A. I stayed on the conservative side in my classification, and to keep on the conservative side I would have to place that in fourth class.

Q. Well, you mean conservative for the benefit of the company really, isn't it?

A. No; in regard to classification.

Q. Well, why, unless you think you have answered it fully, why should that be carried from any point of view as used and useful?

A. The fact that it is between or fits into these two productive leases would be sufficient evidence in my opinion to still carry the acreage.

Q. And it would be used and useful to the company?

A. Yes, sir.

Q. Well, how many more wells now, do you want on that tract before you would be satisfied to remove it from your used and useful leasehold acreage?

A. In my opinion that tract should be tested more thoroughly toward the center, knowing the nature of the 3375

[fol. 1864] Clinton sand in the territory.

By Commissioner Geiger:

Q. Well, do you know enough about that tract to recommend to your company that they release the leasehold at the earliest possible time in order to save the money that they have to pay for leases?

A. If I should recommend it, I would recommend they test it again before they assigned it, because of the fact you are practically surrounded by good production.

Q. Well, isn't that true, however, that as that map appears there, it is entirely surrounded by property that is being drilled by your company?

A. Yes.

Q. So that this man, if it were full of gas there, he couldn't get it out of his territory, could he, nobody would come in and lease that 160 acres?

A. Oh, very likely. Here is a farm right here——

Q. This belongs to another company?

A. To another company.

By Mr. Butler:

Q. Now, take the tract just north which is blue, that is No. 2?

A. Yes, sir.

Q. That has a dry hole on it?

A. It has one on the extreme southwest corner.

Q. And what is this one over here in the corner?

A. That is third class.

Q. And is this a well or something?

A. Oh, no, sir, that is No. 5.

Q. Now, this dry hole in that No. 2 acreage didn't lead you to remove it from No. 2 acreage?

A. No, sir; because you have three practically offset gas wells on the north side.

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[fol. 1865] Q. Well, wouldn't it have been rather decent to that piece of land to have at least made a four out of it, after you got a dry hole?

A. I don't get your point, sir.

Q. Why carry it as a 2 with a dry hole; why didn't you make a 3 or 4 out of it?

A. Well, it seems very evident to me that a portion of that acreage at least is in a proven pool. You see your acreage may extend one way or another.

Q. How many acres in that?

A. Oh, about 10 acres or so in that corner there.

Q. No, no; in this?

A. Oh, that is 80 acres.

Q. Well, when do you remove acreage from No. 4?

Commissioner Gieger: Do you mean make it No. 3——

Q. No, take it out altogether?

A. Surrender the acreage?

Q. Yes.

A. I never do that.

Q. No reason why you shouldn't, because the cost of carrying it is in your operating charges?

A. The production superintendent has the say of whether the leases shall be surrendered or not.

Q. Do you know how much has been surrendered of No. 4 in the last few years?

A. I do not konw.

Q. Do you know whether any has been surrendered?

A. Oh, I am very sure some has.

Q. Well, will you tell us about that? Take this period from June, 1929, concerning which you have been speaking, wells drilled during that period; have you during that time taken in any new acreage?

A. Yes, sir.

Q. How much?

A. I don't know.
Q. Do you know in what counties?

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[fol. 1866] A. No, not offhand. I can get you that information if you so desire.
Q. Better do that.

Mr. Turner: Haven't you got that in another exhibit, Mr. Butler?
Commissioner Geiger: I think that is here.
Mr. Turner: Mr. Seyffert.
Mr. Butler: No; and if it is here it doesn't show in which class it is, nor don't show in what counties. It is becoming apparent that mere acres don't mean much.
Mr. Turner: You want that information from June 29th to May 31st?
Mr. Butler: Yes; for the comparable time that you presented this other.

Q. Now, Mr. Roth, I would like to have your figures for your estimated gas content of your No. 4 land, your No. 3 land, your No. 2 land, I want to know——
A. We never made an estimate of No. 4.
Q. Never made an estimate on No. 4?
A. Not myself. I worked on some work with another firm that did make an estimate.
Q. On this same property?
A. Primarily the same.
Q. What firm?
A. Ford, Bacon & Davis.
Q. Oh, well, I assume you can get those figures?
A. I believe I can, sir.
Q. All right. But you have made it for No. 3?
A. I have for No. 3.
Q. And you have for 2?
A. Yes.
A. And you have for No. 2?
A. Yes.

Mr. Butler: Well, let us have those. It seems to me that is all, gentlemen, until we get back.

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[fol. 1867] (At this point at the direction of Commissioner Geiger, a discussion was not taken in the record.)

Mr. Turner: Now, for the record——

Commissioner Geiger: We are not taking a record now.

Mr. Turner: I am talking, and it is for the record——

Commissioner Geiger: When we are talking among ourselves I don't think it is anything for the record.

Mr. Turner: Well, I thought I could put into the record the request that I was about to make, and I think it is a gentlemanly request, and I don't like the statement made by the acting chairman.

Commissioner Geiger: I know. If it is an application or something of that sort——

Mr. Turner: Yes, if you would listen for a little bit you would find out what it is.

By Mr. Butler:

Q. Mr. Roth, I assume that you have made no study of the original cost of these leases; that is not in your work?

A. No, sir.

Mr. Butler: That is all.

Redirect examination.

By Mr. Turner:

Q. Mr. Roth, you spoke of a well 400 feet deep having a rock pressure of 420 pounds——

A. I was in error. It should have been a thousand feet. A well a thousand feet deep, you see that would bring you out 42 pounds. A well a thousand feet deep would have 420 pounds.

Q. In this Exhibit 142, your attention was called here 3379

[fol. 1868] at the bench to page 10. I wish you would step here again, if you please, and just identify this place that the No. 4 acreage is referred to; is this the place?

A. That is right. Section 5, Orange Township, Ashland County.

Q. Now, is it true that to the west of it for practically 160 acres there is No. 1 territory?

A. That is right.

Q. And at the south of it for at least 320 acres, four townships wide, there is No. 1 acreage?

A. That is right.

Commissioner Geiger: You don't mean four townships wide, four sections.

The Witness: No, you mean four farms.

Commissioner Geiger: Four quarters.

Q. Four quarters wide; and so amended your answer is yes?

A. Yes, sir.

Q. And at the east of it there is—what is this?

A. No. 3.

Q. 80 acres?

A. That is right.

Q. And then after the 80 acres there is No. 1 territory again?

A. That is right.

Q. Running, 1, 2, 3, 4, at least four quarters east?

A. Yes, sir.

Q. And to the north of it there is 80 acres of No. 2, and then about 120 acres of No. 1 again is there not?

A. That is true.

By Mr. Butler:

Q. Take the south half of that township and practically the east half of the south half and look at some No. 1 and some No. 2 surrounded by 3 and 4. Now, how did you reach that classification?

A. You will notice here, sir, that these pools are running quite distinctly in a northeasterly direction. There is one

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[fol. 1869] there, you see; here is a series of them here, and there is one starting here, and the acreage has been classified using that practically as a basis. You will find a pool over here in Jackson Township; in other words, you have got here trends of pools.

Q. What direction is this?

A. That is northwest.

Q. West?

A. Yes.

Q. But the pools run northeast?

A. That is right.

Q. Yes. And while this, between this which I have just referred to——

A. We do find that there is——

Q. You have No. 4?

A. Any land in there that has no definite reason for placing it in two or three, we placed it in 4.

Q. Why place it anywhere; just because you own it, is that the reason; and I don't ask that in any mean way.

A. Well, in my judgment, its proper classification is class 4.

Q. How much of your acreage did you throw out as not belonging to any of the classifications?

A. I threw out none.

Q. Didn't find any that didn't come within one of the four classifications?

A. I don't find any that didn't have some prospects in my opinion.

By Mr. Turner:

Q. These white spaces on this page 10 of this Exhibit No. 142 are properties under lease by other gas companies, are they?

A. Yes, sir.

Q. And I see indication of wells there; does that mean wells; for instance, there is one I am pointing to.

A. That is an operated well.

By Mr. Butler:

Q. Go back to the southeast again because it illustrates what we are after to get your point of view. Now, in No. 3381

[fol. 1870] 1, what is that?

A. A well.

Q. That is 80 acres?

A. 80 acres.

Q. And in No. 2 what is that?

A. There is no well there.

Q. Never has been any?

A. That adjoins No. 1.

Q. That is all. Well, now, in the surrounding three and four have there been any wells drilled?

A. You notice in the Section 35 in the south portion of the map there is a well, an outside well.

By Mr. Turner:

Q. That is on out over the Ohio Fuel Gas Company?

A. Yes.

By Mr. Butler:

Q. But in any of your acreage, has there been anything drilled at all there?

A. There is a dry hole on No. 4 here, in section 25 in the east.

Q. Any other drillings around here?

A. Here is on the north between Section 26 and Section 14, there is several dry holes in No. 4.

Q. Yes. Well, why did you put in a No. 3 there; just because it was somewhat continuous, or was contiguous to 1 and 2?

A. That is one reason, and the other reason was that the stride of your pool—what I mean by that, the trend of your pool is north and east as demonstrated by the pools on the other part of the map.

Q. And I have understood you to say that when a pool starts, of course you don't know where it will and until you actually get to the end of it?

A. Well, that is——

Q. That is the only way?

A. That is practically so.

By Commissioner Geiger:

Q. Well, now, when you find definitely the fair outline of a pool, then I understand that you don't know where a

3382

[fol. 1871] new pool will begin outside of that territory; consequently you don't remove anything from a classification in which it then stood; is that right?

A. That is right.

Q. But suppose you develop it to the point that you have driven two contiguous pools, and there is demonstrated to be a barren portion of land between those two pools; what do you do with that?

A. They very often surrender acreage when they deem it sufficiently tested to make it look non-attractive for further drilling.

Q. It is cheaper, as I understand, for a short time at least to carry an uncertain acreage and pay the rental rather than surrender it or rather than drill it and then surrender

it; it will cost you much more to drill than to carry it and pay the rental?

A. Yes.

Q. The natural inclination is instead of developing a tract and drilling, is to just carry it along in acreage under lease until the future drilling may develop whether or not it is good?

A. Until conditions may warrant the drilling of the acreage.

Mr. Turner: On the acreage immediately adjoining this last number 4 to which Mr. Butler directed your attention and about which he inquired; there is 1, 2, 3, 4, 5, 6 operating wells owned by other companies are there not?

The Witness: Yes.

By Mr. Turner:

Q. Now, Mr. Butler inquired about whether your company had any wells in the Ashtabula territory which was recently taken out. I want to ask you whether or not any other companies have wells in that territory?

3383

[fol. 1872] A. Yes, there are gas wells.

Q. Was this taken up before or after gas was hit up there?

A. After.

Q. Judge Geiger developed something about the pumping; do you pump wells?

A. As a rule you pump in this country oil wells, and occasionally if there is evidence of water in your gas wells, they often pump them to keep the water out.

Q. Well, now, is there what is called an economic limit beyond which the companies do not continue to operate a gas well although there is some gas still left there?

A. Oh, there is a limit. I can't state just what that limit is, but——

Q. That is an operating proposition?

A. It is an operating proposition.

By Commissioner Bricker:

Q. I thought you said this morning it was something between twenty-five and 50,000 rock pressure?

A. Well, that has been more or less my experience in the matter. I wouldn't make that as a *falt* statement; that

oftentimes you do put the vacuum on, depending often times on the location of your pool and the conditions of your wells in the pool.

Br. Mr. Turner:

Q. On whether or not you offset somebody else; has that anything to do with it?

A. It might or it might not.

Q. Now, speaking about this Ashtabula property, do I understand your contention to be that there is a swing to the north and east?

A. Yes, sir.

Q. Tending to go where?

A. A strike up in New York state around East Aurora, New York. The strike of your beds—do you get that point clear? You know the dip of your beds may be south and

3384

[fol. 1873] east and the strike of your beds if the distance, or the line perpendicular to your dip, and the strike of your beds goes right up through Ohio and circle and almost follows the contour of the lake in New York State so that wells drilled along a certain line would be of practically the same depth. That is what is termed the strike of your bed. So that territory over to the north and east looks more favorable than it would if the bend didn't take place there in the strike.

By Commissioner Bricker:

Q. This is just a question out of curiosity, but was this formation of gas at the edge of water coming down from the north with the land sloping toward the west, or was it from water coming in from the west and the land sloping toward the east?

A. Do you mean in the——

Q. In the Appalachian region?

A. You mean that the period of deposition?

Q. Yes.

A. The sediments apparently come from the east; that is as near as I can tell you.

Q. Well, how do you explain that following around the course of the lake then?

A. Well, you have what they call the Appalachian geosyncline that goes down about the corner of Pennsylvania

through West Virginia in a southwesterly direction. In about the southwest corner of Pennsylvania you have an area of sediment. From that point in every direction the rocks have a tendency to come up like an ampitheater, and the split end of this bowl is the one I am speaking of that circles near the lake. That is a cross pressure.

By Commissioner Geiger:

Q. The Appalachian system is really an enti-linal system, isn't it, taking it generally?

3385

[fol. 1874] A. It is anticlinal and synclinal both. This basin has a tendency to be synclinal, geosynclinal. You have a big basin of sediment, and that lies toward this Cincinnati arc. It is shown on that diagram I showed you, and also toward the Alleghany mountains where these formations outcrop. Now your beds also thicken toward the east, so that when you get over near the mountains in Pennsylvania you have an enormous thickness of sediment from the old deposit.

Q. Now, there is just one thing that you haven't brought out, and I suppose you have a good reason for it. You have been generally examining quite an extensive territory stretching from up into Ashtabula, swinging a little to the south down to the Ohio River, all of which you have included in either 1, 2, 3 or 4 territory, as either producing or likely to produce and so forth as you set out. Now, what *is* valuing the property, value did you give to the kind of a well you strike? Apparently strike anything, be it great or small, you put it down in No. 1, whereas somewhere else you might strike a very rich field with large flow of gas and one that would continue for years, and you still put it in No. 1. Then you put anything that is properly designated in No. 2 and so on down the line. Now isn't that lumping the thing, all over the State of Ohio in one lump too much without finding out that there is a more marked difference, just to lump one that is worth so much per acre and another is worth so much per acre; because you get so many acres at a dollar an acre runs a considerable distance——

A. Well, Your Honor, I haven't attempted to value these properties myself.

3386

[fol. 1875] Q. From your valuation or from your examination as a geologist, would you or would you not say that there was any marked difference in the actual value of the leaseholds on one producing group of acreage as compared to another producing group; does the fact that one will be a real gas well and one will be just a little trifling well that don't amount to much, would produce gas but still is not a real successful well——

Mr. Turner: I object.

Q. What would you do with it?

Commissioner Bricker: Let him answer.

Mr. Turner: Note an exception.

The Witness: Shall I answer the question?

Mr. Turner: Oh, yes.

The Witness: If I were valuing it, I would value the wells in proportion to their size. That would be the way I should do it, but——

Q. Well, has there been any effort upon your part to segregate this large accumulation of territory in reference to size of the well that either is produced or is likely to be produced?

A. No. The company in my opinion only kept commercial wells, and in setting up the well data which is exhibit 145, we have shown the territory and the data pertaining to each well on that exhibit. Anyone placing a value would have access to that, and should govern himself accordingly.

Q. Well, do you know whether those who did place a value on it consulted that?

Mr. Turner: Objection.

Commissioner Bricker: Save your exception.

Mr. Turner: Save the exception.

3387

[fol. 1876] The Witness: I don't know, but I presume they did.

By Mr. Butler:

Q. Mr. Routh, with all humility I confess that I don't yet know quite that company's Exhibit No. 155 is, and it so happened that I was trying to discover some other things at the time and became confused.

A. Exhibit 155 shows by the use of lines of equal thickness the sand conditions in a pool situated in Monroe Township, Richland County and Green Township, Ashland County. You will note these lines represent lines of equal thickness, each line being a certain thickness.

Q. This is what sand?

A. Clinton. It is noted down here on the margin. You notice here, "No sand, 5 feet, 10 feet, 15 feet". You see there is——

Q. Where do you say no sand?

A. Right here, see the zero?

Q. Oh, the zero means no sand?

A. Yes.

Q. Well, now, does that mark the outlines of a particular pool?

A. This map I have here outlines the boundaries of this particular pool.

Q. And shows fairly the actual termination of the pool, the actual outside boundaries of the pool?

A. Fairly so.

Q. And the method that is used in this exhibit could be applied practically to every pool that you have your data at hand?

A. Pools that are almost complete developed it would.

Q. Yes.

A. But newly developed pools you wouldn't know the——

Q. Of course not.

A. Complete extent of it.

Q. But with the information that you now have, you could fairly tell which pools have been circumscribed and which pools have not yet been pursued to the end.

3388

[fol. 1877] A. That is generally true.

Mr. Butler: That is all, Mr. Turner.

By Commissioner Geiger:

Q. Let me ask one or two questions. You are connected with tax matters in reference to the company; are one who figures the depletion for taxation, is that correct?

A. Yes, for Federal income tax.

Q. Federal income tax. Now, do you take the per cents of depreciation that the Government allows you or do you figure on it actually from your estimated depreciation?

A. Depletion as it is now used by the Government doesn't have any bearing or very little bearing on depletion as it actually takes place in the well. It is a set sort of a ruling they have adopted, the way you can determine your depletion. It must not be confused with depletion as it takes place in actual production practices.

Q. You mean by that the government has filled out a per cent for annual depreciation of a property like gas wells which they permit you to take irrespective of what you would judge as an engineer or geologist had actually occurred in that territory?

A. Yes.

Q. Do you find that the Government's allowance for depletion is what amount?

A. It so states, you are allowed 27½ per cent of your gross income providing it doesn't exceed 50 per cent. of your net income.

Q. Well, you don't think that for the purposes of valuation of property for the fixing of a rate that that is a fair rule to go by?

A. Indeed, I can't answer that, sir.

A. That is all right; that is annual depreciation?

A. Depletion they term it. I have been speaking of depletion.

3389

[fol. 1878] Q. Well, annual depletion?

A. As I see it has but very little bearing——

Q. Theoretically the government would allow you to entirely deplete the gas in the period of four years; after that they wouldn't allow any more depletion?

A. No, sir.

Q. Of course, there wouldn't be any——

Mr. Turner: Wait; you haven't got that right.

Commissioner Geiger: Well, I don't understand it.

The Witness: It is a rather peculiar law in regard to depletion of your well. No matter if your well produced, for 50 years you get 27½ per cent of the gross income from the property providing it doesn't exceed 50 per cent of the net.

By Commissioner Bricker:

Q. And that is deducted annually from your book value?

A. I can't answer that, sir.

Q. How is it carried, do you know?

A. You would have to ask Mr. Newman who handles that.

Commissioner Geiger: Why you would soon get down to the point your property wasn't worth anything.

Mr. Turner: No, no. As long as you are taking in something and making some money it is worth something and you have got some depletion. There are two facts.

Commissioner Geiger: You have reference to an income rather than to the value of the land or property——

Mr. Turner: Exactly so.

The Witness: It is really an allowance for depletion.

Commissioner Geiger: All right, anything further?

Mr. Butler: Mr. Newman, do you carry that on your books at all in any way or is it for the purpose of income tax only?

Mr. Newman: Just for the purpose of income tax only.

3390

[fol. 1879] Commissioner Bricker: Don't effect your books?

Mr. Newman: Don't go on the books at all.

. . . . . .

5243

[fol. 1880] Leon J. Pepperberg testified:

By Mr. Turner:

Q. What is your opinion as to whether No. 2 leaseholds are necessary to support No. 1?

A. They are necessary.

Q. Does No. 1 drain No. 2 at any place?

A. Yes, sir.

5260

[fol. 1881] T. R. Weymouth further testified:

Q. I want now to direct your attention briefly to the question of gas reserves. You have been a manager, an operator, and I wish that you would as briefly as possibly, yet covering all the necessary points, tell the Commission how you go about to establish a gas company.

Mr. Butler: Like the——

Mr. Turner: Like the Ohio Fuel.

Mr. Butler: Like Kelley did, you mean?

Mr. Turner: Yes, no, I am not talking—I am talking about the practical part. Kelley was the financial end of it.

Mr. Butler: All there was to it, isn't it?

Mr. Turner: Those companies are going, they are making money in opposition to the United.

Mr. Butler: I beg your pardon.

Mr. Turner: You asked the question.

(Question read.)

A. The foundation stone of all natural gas companies is, of course, its supply of natural gas. In order to establish a natural gas company, one must first have sufficient gas reserves to seek a market. Once those reserves are in hand, then the project becomes one of finding the most suitable market for them and connecting the reserves to the market.

Q. Have you any objection to using an actual illustration of collecting the necessary acreage to insurance a market before the market could be tapped or developed? I wish you would go ahead here and tell us about it.

A. I can tell in a limited way about the situation that

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[fol. 1882] exists at the present time. I suppose you all know of the gas fields that are being developed in northern Pennsylvania and in New York State. There are a number of different companies who have developed gas reserves there, but in order to warrant seeking a market for those reserves, it became necessary for those companies to pool their reserves and thereby secure the necessary extent of reserves.

Q. In other words, there was not enough reserves to justify either the people changing over to natural gas or the investors putting their money in wells and pipe lines, is that correct?

A. That is correct, unless they did pool them,

Q. About what percentage of gas lands turn out to be what we call number 1? Could you give that roughly?

A. Read that question please.

(Question read.)

Q. In other words, you go out and lease up a lot of property, as I understand it. Now, can you go out and lease up nothing but producing properties?

A. Oh, decidedly not.

Q. I wanted to get what you did and about what percentage of it turned out to be Number 1 finally?

A. Well, that figure would vary a great deal in different locations. I should say offhand if you got 10 per cent of your total acreage and ultimate producing Number 1 acreage, it might be an average yield.

Q. Well, could you establish in the State of Ohio a gas industry with 291,000 acres of Number 1 just by buying 291,000 acres?

A. Oh, no, that would be a physical impossibility.

Q. About what would have to be done there to develop, to

5262

[fol. 1883] get down to the point where you finally had about 290,000 acres of Number 1?

A. You would first have to lease a great many more acres, great many more times that acreage, and then by drilling and exploration develop the productive acreage. Of course, methods of doing that vary considerably, but the present method is to use geological observations to a great extent to determine the most likely existence of gas producing horizon and then explore those by drilling operations; but, as Mr. Pepperberg said this morning, only the drill can tell and it is only after a great amount of acreage has been explored that you finally develop your Number 1 acreage.

Q. Would you as an operator attempt to establish a company such as the Ohio Fuel Gas Company with its present business limited only to Number 1?

A. You couldn't do it, you couldn't make proper representations to the people whom you wished to buy the gas from you, neither could you raise any money to build a project of that kind on that basis.

Q. I don't know whether I asked you or not, I might have, and pardon me for repeating, would you buy Number 1 acreage alone?

A. You mean if that is all I could get?

Q. If that was all you could get. Oh, no, I shouldn't say if that is all you can get. Would you establish a company with Number 1 acreage alone?

A. I think that would depend upon the extent of that acreage. If you had enough Number 1 acreage, of course, you could.

Q. Well, it is the awkwardness of the question I see. What I want to get at is to ascertain whether my own diagnosis here as given me by other engineers is correct, that

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[fol. 1884] the wreck of gas companies that have left their remains on the beaches throughout Ohio haven't been largely because they had no reserves?

A. That is quite true.

Q. And I want to know whether you could successfully operate a gas company without reserves?

A. No, you could not, not at all. I think the—I don't know of any successful natural gas company that does not have large gas reserves and which does not depend upon those reserves.

Commissioner Bricker: Is there any other territory in Ohio for which you can go for reserves outside of that which you have already gathered up?

The Witness: I couldn't answer that, sir; I am not familiar.

Q. Number 1 territory is not regenerative, is it?

A. No; no territory is.

Q. Is it your experience as an operator that you can drain some of the Number 2 territory through Number 1?

A. Yes, you can.

Q. If you didn't have the Number 2 territory, what would be the fact as to the necessity of drilling many offset wells to protect your Number 1?

A. It is a fact that you would be compelled to drill a great many offset wells.

Commissioner Geiger: Well, now, wouldn't that only be a fact if the Number 2 adjacent to your Number 1 were being developed?

The Witness: Yes.

Commissioner Geiger: If it wasn't being developed, there would be no occasion to drill offset wells?

The Witness: No, that is quite true.

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[fol. 1885] Commissioner Geiger: Your statement is a little too general that you have to drill offset wells. You

would only drill offset wells in the event a rival company was drilling wells on Number 2 adjacent to your Number 1, is that correct?

The Witness: Yes, that is correct.

By Mr. Turner:

Q. Isn't it always true that when you develop acreage somebody else attempts to lease the adjoining property?

A. That has been the invariable experience of everybody in the gas business.

Q. And hasn't it been the experience in the gas business that unless you get that adjoining property, it will be drilled and your gas taken?

A. That is correct.

Commissioner Geiger: Well then, following that up, You get Number 1 and you have got to get Number 2 in order to protect Number 1; that is right, isn't it?

The Witness: Yes, but it doesn't follow in that order. Usually the acreage is all taken together and Number 1 is gradually separated out from the Number 2.

Commissioner Geiger: I see. But then you would have to get Number 3 in order to protect your Number 2, and Number 4 in order to protect your Number 3?

The Witness: Yes, you have to have Number 1, 2, 3 and 4 acreage, not only as a matter of protection, but also as a possible source of supply for the continuation of your business.

Commissioner Geiger: All right.

Q. It was testified to in this case at Pages 3317 and 3318, that out of a total of 685 gas wells drilled by the Ohio Fuel Gas Company between June 30, 1929, and May 31, 1931, only 14.3 per cent of them were in Number 1 territory while

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[fol. 1886] 41.9 per cent were in Number 2 territory and 19 per cent in Number 3 territory and 24.8 per cent in Number 4 territory. Does that to your mind illustrate the necessity of a public utility or a company such as the Ohio Fuel Gas Company having all of these reserves?

A. It not only illustrates that, but it shows the actual practice, the actual fact that these reserves are used and necessary for the perpetration of the business. The very fact that you have drilled on Number 4 territory, Number

3 territory and Number 2 as well as the Number 1, is the most convincing proof that I know of that this outside territory is necessary, in the conduct of the business.

Commissioner Geiger: Well, is it *this* true or not, that if you have Number 2 territory which you have purchased to protect Number 1 and you go on to Number 2 and drill and produce a well, that the very fact that you have drilled and produced a well makes that which was formerly Number 2 then Number 1?

The Witness: Yes, that is correct.

Commissioner Geiger: And Number 2 that has a producing well on it ceases to be Number 2 and becomes Number 1; isn't that true?

The Witness: That is correct.

Commissioner Geiger: And you couldn't have a given acreage occupying both classifications of Number 1 and Number 2; that is impossible, isn't it?

The Witness: That is correct, and I assume as soon as these wells were drilled on this, 2, 3 and 4 acreage, that automatically converted the leaseholds on which they were

5266

[fol. 1887] drilled to the Number 1 classification.

Commissioner Geiger: Sure.

Q. And you so understood my question, did you not?

A. Yes, exactly.

Q. The evidence in this case shows that more than 40,000 acres of the Ohio Fuel Gas Company's gas lands have been developed into Number 1 during the years 1927, '8 and '9; would that indicate to you as an operator the necessity of having the gas reserves?

A. Yes. It would also confirm just what I said a moment ago that this acreage is converted to Number 1 as soon as it is drilled.

Q. Isn't it the general experience that you don't buy acreage as Number 1, you buy acreage and it develops by drilling into Number 1, 2, 3 and 4?

A. Precisely. I think I said that just a moment ago.

Q. I wish that you would take Company's Exhibits Numbers 181 and 182, referring first to Number 181, if you please, where we have portrayed there the gas produced by the company and the production in reserve and comment upon this Number 181, showing the necessity, if it can be

thus shown, of company reserves. In other words, correct me and see if I am stating it right——

Mr. Butler: Why not let him state it first?

Q. Thank you. Go right ahead, Mr. Weymouth. You can do it so much better than I can. I was trying to save time.

A. Exhibit Number 181 shows the gas produced by the company in Ohio, the production in reserve by the company, together with the daily deliveries over a period of about two years so as to complete a whole cycle of operations. It also shows the number of wells that were on, in

5267

[fol. 1888] use, the number shut in, and the total number of wells at various periods during that interval.

Q. Now, I just want to get from you the picture of how the Ohio Fuel Gas Company, for instance, operates in reference to its production, where does it get the demands for its peak loads, from its own production or from purchased gas?

A. It depends primarily upon its own production for the peak loads. This chart does not show that clearly, but it does show that if the purchased gas is eliminated from the picture, there would not be a sufficient amount of gas in the company's own reserves to supply the demands.

Q. Lets go at Exhibit 182 and proceed from the outer angle then. Taking the gas purchased from other Ohio producers, added to that, the gas purchased from West Virginia and then the gas purchased by the Ohio Fuel Gas Company, and tell us where the peak load is supplied from?

A. As is shown in Exhibit 182, the part colored yellow is the gas purchased from other Ohio producers. That gas runs along in steady production due to the nature of the gas purchase contracts.

The gas purchased from West Virginia also flows at a fairly uniform rate. The gas produced by the company varies more markedly with the demands than the gas purchased and it is this gas purchased by the company, together with the gas held in reserve, which is necessary to provide for the peak demands.

If you will notice, during the month of January, 1930, there is one day when there were 3567 wells in use and only 52 of the company's wells shut in and on that day the individual day demand exceeded the sum total of the gas

purchased from both sources, that is, within the State of
5268
[fol. 1889] Ohio and without the State of Ohio, and the company's average reserves for the month. Of course, during that particular day there was additional gas coming from the reserves which was at a greater rate than these reserves were figured upon.

In the summertime or in the spring or fall, it doesn't show it in the summer time, but in the spring and fall, or in the fall particularly, November, 1929, you see that 2174 total wells are on the line and 1,306 of them shut in, which indicates the method of operation that the company adopts for taking care of fluctuations in the demands for gas.

Q. Well, now, take those wells in use there at the peak, 3567, and compare them with the wells in use in April, the following April.

A. The following April, there were 3045 wells in use and 604 shut in as against 3567 in use and 52 shut in during the month of January.

Q. Now, is this statement true, that during a large part of the year, a number of the company's wells are shut in and not used at all?

A. That is correct.

Q. Well, now, is it practically possible to buy gas from the independent producer on such a basis that his wells shall be shut in the majority of the time and only used on peak days?

A. There are very few producers who are willing to sell you gas on that basis. When they do sell it, they demand a higher price than when you can take their gas in the summer time as well as the winter. The usual contract of the company, I believe in the past has been to take all of the gas they can produce against the varying line pressures in the winter time, six months in the winter, and one-third of that quantity during the six months of the following
5269
[fol. 1890] summer.

Q. The question has been put in this case, why, if you can purchase gas at the well for 15, 16 or 17 cents, do you have to have 45 cents at the gate; could you get sufficient purchased gas at any price to supply the peak load?

A. No, I don't believe you could. In the first place, the price which you pay for gas to the operator in the field is

bought from the man who is a successful operator. There are many operators for gas, many drillers for gas who do not secure their supplies and they fall by the wayside. The company's production must take account of both the successful and the unsuccessful operation. If we were to take account of the unsuccessful individual operator as well as the successful one, the price to be paid for gas in the field would be considerably higher than it is.

Q. Could the company get along with the amount of gas available by purchase?

A. No, it could not.

Q. Now, do I understand it correctly that the peak load, that is the load outside of the summer time, is supplied largely from the wells of the company itself? Don't this Graph 182 so show that?

A. Yes, it does. It shows that the total supplied by the company is in excess of that purchased from both sources enumerated before.

Q. I don't think that graph shows the percentages, and have you the percentages handy of purchased gas and produced gas?

A. Well, I will get them. I have got it in another source.

Mr. Butler: 23 shows that.

Q. I think we have an exhibit in here that does show it.

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[fol. 1891] But you may assume the figures to be that the amount of independent Ohio production over a three year period was about 22.3 per cent of the average, which in turn would only be about 13.9 per cent of the maximum demand. Does that not demonstrate to you as an operating that the company could not depend to any appreciable extent upon purchased gas?

A. Yes, it does.

Q. What is the fact, it ought to be obvious, but I will ask you the question, what is the fact as to whether or not if you don't use a well only two or three months in a year, it costs more to produce gas from that well?

A. Per thousand cubic feet, you mean.

Q. Per thousand cubic feet.

A. Yes, that is quite obvious.

Q. And as I understand, it is the company that has to bear that sort of production, is that correct?

A. That is true. In other words, the company has to bear the brunt of all the fluctuations in demand for gas.

Q. It might be said "Well, on the peak days here when you had used all of your wells but 52 when at other periods of the year the wells shut in run from 604 to 2300, that you don't cut down on the number of wells." What comment have your got to make on such a claim? I said wells shut in run from 52; I notice they run from 34 up, I find that the wells shut in January, '29, were only 34 and the wells in use 3,349, which in September, 1930, the wells shut in were 2300 and the wells in use were only 1,388.

A. Now, what is your question with regard to that?

Q. My question with regard to it is the comment that 5271 [fol. 1892] might be made, "Well, the company could take a chance of buying that extra gas and wouldn't have to have as many wells and as much capital invested and therefore ought to operate at lower price." I am talking about continuity of service and assurance of service.

Mr. Butler: Who said that?

Mr. Turner: I did. I am asking the question on your agreement, leading questions.

Mr. Butler: Oh well, that isn't the point. I don't want to quarrel, though, so I will stop.

Mr. Turner: You are in the record already.

(Question read.)

Mr. Turner: Oh well, cut it all out and I will ask a shorter question.

Commissioner Geiger: Oh, Mr. Turner, let's don't do that. He can answer that, can't you?

The Witness: Yes.

Commissioner Geiger: Very nice question, we don't want to spoil it.

The Witness: The very magnitude of the number of wells changed shows the necessity for having control of a field containing a large number of wells. I don't know of any possibility of securing gas that would permit of an operation under the conditions disclosed by those figures.

Q. I understand it will be argued here that if The Ohio Fuel Gas Company were to surrender all of its number 2, 3 and 4, there would be lots of independent operators immediately begin to produce gas. How many of them do you think you could get to supply you with gas at about 15 cents

5272

[fol. 1893] in the winter time, and only in the winter time.

Mr. Butler: That is strange rebuttal, if the Commission please, but——

Commissioner Geiger: Well, I don't follow as to its being rebuttal. What are you rebutting on that?

Mr. Turner: We are rebutting the necessity of gas reserves. They have said here and introduced exhibits showing that we should be allowed Number 1 territory only. We claim that all of our property is used and useful and I am trying to show it.

Mr. Butler: Not rebutting us, you are rebutting the Supreme Court, Mr. Turner.

Mr. Turner: I am rebutting you.

Commissioner Geiger: I don't think that the Supreme Court has held that a property which is once in use and has gas wells drilled upon it becomes property not used by merely shutting in the wells.

Mr. Turner: No, that isn't the purpose.

Commissioner Geiger: I don't think the Supreme Court has so held. The Supreme Court has held that two, three and four not producing any gas, but held in reserve, are not used and useful until they are put into operation, wells drilled.

Mr. Turner: I am showing that we haven't too much territory in Number 1, not sufficient, we have to develop it, and you have to have the other classes.

Commissioner Geiger: Well, I don't know what we are going to do with the Supreme Court.

Mr. Turner: Well, sufficient unto the day is the evil

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[fol. 1894] thereof. If they come in here as against our exhibits, which have all of them in, and against all of the testimony that we have offered in this case that I don't think was offered in the other case, that those were necessary, and then say that they are not, why we are just rebutting their testimony.

Commissioner Geiger: Well, now, what is before the Commission?

Mr. Turner: I don't know, I have forgotten, it is so long ago.

Commissioner Geiger: Go ahead. Answer the question.

Mr. Turner: All right, go back and read that long involved question of mine in which I start at one side of the sheet and when I got through, I noticed I didn't have the bottom——

Commissioner Geiger: Well, the settled question is this, is it necessary in order to produce gas at peak demand to have wells that are at one time shut in and at one time used?

The Witness: Yet, it is.

Commissioner Geiger: That is all we want to get at.

(Record read.)

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[fol. 1895] Mr. Turner: Just a question or two.

Q. If the company were to continue to drill No. 1 territory and confine its drilling to No. 1 territory, what is the fact as to whether the wells would become smaller?

A. They do become smaller in every field of that character, every confined acreage.

Q. What would be the effect as to the increase of cost of production?

A. The production would cost an increased amount, corresponding to the declining productivity of the wells drilled.

Mr. Turner: You may cross examine.

Mr. Butler: I will go as far as I can, if the Commission please.

[fol. 1896] Mr. Weymouth testified on cross-examination:

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[fol. 1897] Q. You were discussing the necessity of having Number 2 if you have any Number 1, and you were not very emphatic, but somehow I got the impression that if you had Number 2, you would want Number 3, and if you had Number 3 you would want Number 4.

A. I did not unite them.

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[fol. 1898] Q. Isn't it a good deal like the theory of Abraham Lincoln's neighbor, who didn't want much land, but just wanted what adjoined? Isn't that about the theory

you come to in this? You just want what is around, what touches you?

A. No what I would want would not be only a Number 1 acreage, which, according to this classification is the actual proven territory, but I would also positively have to have acreage of the classes known as Numbers 2, 3 and 4 in this case, in order that I could maintain the character of service to which I am obligated in the future. It is not conceivable to me that any natural gas company, and I don't know of any natural gas company in the past of any important or size, that has not had a large number of acres of gas in reserve, many acres of which are most highly speculative, but which indicate the possibility of having gas under them, so that, as the productivity of the wells in the Number 1 acreage decline, as decline it must with the withdrawal of gas, the company will be able to carry on its drilling operations in the 2, 3 and 4 acreage, in order to maintain that supply. As I say, even in companies where a large part of their gas is purchased, such as the company I was with in Oklahoma, where, on account of the great volume of natural gas brought in with the oil wells, that company maintained many thousands of acres, three or four hundred thousand acres, of reserve territory, on which it drew freely. Much of it did not draw at all, but had simply as a back log to maintain their service.

Q. Well, of course, you went far afield, but I am glad to have you do it. But the point I make is in reference to another direction of your testimony. Whenever you drill a

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[fol. 1899] well and it is a good well, whether it be in 1, 2, 3 or 4, as a business proposition, you would be very glad to have the land close to it, wouldn't you?

A. Yes, sir, and I would try to get it.

Q. That just follows as a matter of course. And you could carry that on ad infinitum?

A. That is correct.

Q. In your scheme or organization, how long in the future do you provide reserves?

A. There is no definite answer that can be given to that. We are constantly taking up acreage which gives indications of being productive, with a practical knowledge gained from our experience in the operation of the utility that this acreage will ultimately be necessary. But how soon it will

be necessary we do not know. And we have never made any direct estimate of the period of time. I would say this, however, that in projecting a new enterprise, a new natural gas enterprise, where you are approaching new markets and securing new capital, it is necessary to figure on at least 15 years and from that up to higher or longer periods.

Q. Well, but applying it to this company, would your answer be the same?

A. I should think it would be even more important for this company, because this company has obligations already incurred which a new enterprise does not have. This company is obligated to maintain its service, whether the cows come home or they don't.

Q. Now, as I understand you, you have said to the Commission that you regard the reserves in 2, 3, and 4 as used and useful?

A. Yes, decidedly.

Q. Now, in giving them that judgment of yours, how long into the future have you planned to carry your gas supply

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[fol. 1900] out of those reserves?

A. We have not, as I stated, made any plans or been conscious of any particular period of time, but we take up prospective acreage to as great an extent as our judgment as business men indicate.

Q. You told me that before. But we are getting down now to grips. What is your judgment? What are you striving for? Can't you translate it into figures or years or a formula that the Commission can get at?

A. No, I don't believe I can, and I have never attempted to.

Q. When do you stop? You have about two and three-fourths millions now roughly. Do you want another million?

A. I cannot speak for the local company. I should say that that would depend on their resources and the cost of carrying it, and those figures, those facts, are matters of business judgment which only the operators are competent really to pass judgment on.

Q. But you have set up around two and three quarter millions which is used and useful. Now, if you go that far, can't you go a little further? Why do you stop there?

A. I say whatever they have is used and useful.

Q. Well——

A. Pardon me.

Q. Go ahead. I did not mean to interrupt you. You should be permitted to finish.

A. If you have a building that is three-fourths occupied by the company and the rest of it is vacant, that building is used and useful in its entirety by the company, because we are going to need the space later on. We are going to need this acreage later on, and it is absolutely essential to the continuity of our service.

Q. You just don't want to say how long it will carry 5299

[fol. 1903] along.

A. I would if I could.

Q. Or express any opinion about it?

A. I cannot express any opinion, because I have no conception in my mind of the definite magnitude either of the acreage or the dollars that are necessary to carry it. Those are matters of judgment of the management, which have to be decided in each particular case as the business is going on.

Q. Suppose I tell you that there are enough reserves to carry on for 50 years, would you say that is too long?

A. I wouldn't say that it is or that it is not. Of course, if it is at an excessive cost, in all probability you would not want to hold it, although I would be very glad, indeed, if I had reserves of that character.

Q. I am talking about your views of used and useful leases.

A. I could not express a definite opinion on that.

Q. As I understand you then it comes down to this, that you think the Commission, in a rate case, should trust the uncontrolled judgment and discretion of the company, and whether they take in a little acreage or much acreage, there should be no interference with them?

A. I certainly do. I think that that question is a question of management, and I take it that no public service commission wants to undertake the magement of the company, and usurp that responsibility.

Q. Do you know in how many years the Ohio Fuel gas is claiming the right to amortize its property, over what period?

A. No, I do not. I do not. It is probably in the testimony but I have not heard it.

Q. You haven't any judgment about that?

A. No.

Q. Isn't that one of the reasons, Mr. Weymouth, you do not want to get mixed up in an estimate of the life of the supply of the leases, because you are running counter to your claimed amortization?

A. No, I don't think your premise is right.

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[fol. 1902] Q. All right, have you given attention to the classification of gas leases into numbers? Of course, you have heard about the famous Number 1, Number 2, Number 3, Number 4.

A. Yes, I know what has been done.

Q. Do you practice that art yourself?

A. No, I have never done that.

Q. Well, have you gone into it sufficiently to be able to speak about it and to justify me in interrogating you about it?

A. I have simply become acquainted with the fact of the classification of this territory as outlined, but I don't know just what you mean by whether I know enough about it to be interrogated.

Q. Well, that was a rather direct question, but I have come to rather direct with you. I think you have that type of mind that faces a situation and if you have not studied those classifications, if really you have paid no attention to them of any consequence, there probably isn't much reason why I should ask you, and yet in your direct examination, as I remember, you spoke of Number 1 and Number 2 as if those numbers meant something to you?

A. Yes, I know what the classifications signify, yes, sir.

Q. For example, what does Number 4 signify?

A. Number 4 is the least certain of the territory, it is the prospective territory or the possible gas territory.

Q. Not probable?

A. No, it is not probable, it is taken with the opinion that there is a gas structure under it and there is a possibility of gas production, but that is all.

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[fol. 1903] Q. I read to one of your associates yesterday, Mr. Ralph E. Davis' description of Class 4 and I want to

read it to you and see if you will agree with it. "Class 4 is acreage which is isolated from any production, acreage upon which drilling, wherever it had been conducted, has resulted in no production. It's acreage that has no particular indication that it will be productive other than it lies in the general gas field belt, and it is possible that gas will be found within that Class 4 acreage, although none is known now." Does that fairly meet your conception?

A. Well, that is a little more comprehensive than my conception of it, although I do not know just to what extent they have adhered to that particular definition of it. I consider it myself as acreage on which there is no reason to believe that there is a possibility of securing gas.

Q. Reason to believe that there is a possibility?

A. Yes.

Q. But isolated from all productions?

A. Not necessarily isolated. At a sufficient distance, though, that there is no indication from the existing production that that acreage itself will produce.

Q. And no particular indication that it will be productive?

A. Oh, yes, there must be some indication, that is, some reason to believe that it will be; otherwise, you would not go out and just lease up territory where you had no reason to believe you were liable to get gas.

Q. Well, production is probably used by Mr. Davis and surely used by myself in the sense of being commercially

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[fol. 1904] productive, whether there is a quantity sufficient to justify operation?

A. Of course, when I say productive, I mean to secure gas in commercial quantities.

Q. If there had been a dry hole out in this territory, would you still consider it Number 4?

A. I would until we had determined that it was definitely proven unproductive, then we would abandon it, of course; but as long as it is held as a leasehold, it would continue to be Number 4.

Q. We had a very interesting discussion yesterday. I would like to see your reaction to it, because of your standing. We have a lease, say of a hundred acres, in a square; over in one corner, you drill a good gas well; now, would you make that all Number 1 acreage?

A. I think that would be Number 1 acreage, yes, according to their classification.

Q. Suppose it unfortunately came in as a dry hole, then what would it be?

A. If that were the only well on it, it would probably not be changed until further drilling had been done to determine whether it was unproductive because you do get dry holes in all productive acreage.

Q. And you get gas wells in acreage that later turns out pretty badly, don't you?

A. Yes, you do.

Q. What about the rule working both ways? That is the thing that puzzles me a little, because of my lack of education, I guess. It seems to me that there ought to be some formula that would work fairly in each direction. I know the problem is difficult at the best, Mr. Weymouth, I don't wan't you to understand that I think that there is not a practical side to it that has to be applied.

A. Well, my personal view is that the—I don't like the classification of acreage into four classes in that way.

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[fol. 1905] Q. You like it just developed and undeveloped?

A. Yes. We consider that we have a certain amount of gas territory to be used for the development of our gas reserves for supply and it is a little difficult to define hard and fast lines for that.

Q. Maybe you could prevail upon Mr. Davis and those who followed him to change that classification if you think strongly about it.

Mr. Turner: Of course, Your Honors understand that Mr. Butler is talking about the United, so that we don't get confused about the classifications here in the Ohio Fuel. The definitions are clearly stated in the Ohio Fuel Gas. Davis did not make the classification in the Ohio Fuel.

Mr. Butler. Well, I guess he helped make them in the Logan case, didn't he?

Mr. Turner: I am not trying the Logan case. We are trying the Columbus Gas & Fuel Case here and you have got the Ohio Fuel in it.

Mr. Butler: All right.

By Mr. Butler:

Q. Well, Mr. Weymouth, tell me when you would abandon what we call Number 4 acreage, when you would discard it?

A. Well, when we had drilled a sufficient number of wells to convince us that there was no possibility of securing gas on it.

Q. Well, how extensive must that be? How many dry——

A You can't give a general answer to that. That depends upon the judgment of the operators, aided by the advice of the geologists at the location in question.

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[fol. 1906] Q. I am afraid I am finding out a situation where I should want to know, rather than the judgment of the company. Yesterday one of your associates said that he would hold it until he had demonstrated not only the sands that are in current use in that pool, but had gone down through all the possible gas strata to see whether he could find gas in any of them; is that your conclusion?

A. Well, that would depend upon your judgment as to whether there was a reasonable possibility of getting gas in the lower sands. As I said, you couldn't sit here in the witness box and give a general answer to that.

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[fol. 1907] By Mr. Butler:

Q. Mr. Weymouth, you looked at these exhibits the other day, as I remember, 181, and 182, and some time after that, you said—well, this is the question and answer, Mr. Turner said, "And, as I understand, it is the company that has to bear that sort of production, is that correct? A. That is true. In other words, the company has to bear the brunt of all the fluctuations in demand for gas." Now, what do you mean by that?

A. I mean that the independent producers turn their gas into the line at full head during the winter months and the variations in flow of gas required for the supply to the consumers is controlled by shutting in and turning on the company's wells. In other words, the company production has to be operated in such fashion as to stabilize the flow.

Q. Well, you mean there are no daily fluctuations in the purchased Ohio gas?

A. There are daily fluctuations in the amount of gas which they put in, due to the fact that as the rate of flow changes in the lines, the pressure varies and as the pressure varies, the pressure against which these producers'

wells feed their gas into the line varies, the production from the wells will automatically vary.

Q. You mean that on a peak day, you would get less gas from the Ohio producers?

A. No, you would get more.

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[fol. 1908] Q. You would get more?

A. The compressor stations would have to pull harder on the suction lines, which would pull the pressures down, and the wells would automatically feed more gas against those lower pressures.

Q. Well then, Ohio production does respond to peak demand somewhat?

A. Oh, there is a variation.

Q. Well, how much of a variation?

A. I can't tell that in the daily output, because of the fact I haven't got the figures which you have just asked for.

Q. Well, West Virginia responds quite a bit to daily variations, doesn't it? Have you seen that graph?

A. No, I haven't seen any of the graphs except what we have here.

Q. The gentleman put in last night 172-B, and they have given us three graphs, '28, '29 and '30 for the West Virginia. Now, just glance those three over and see if you see anything?

A. Yes, there are variations in this United Fuel Gas delivery which I imagine would correspond to a certain extent to the fluctuations in the local company's production, which simply emphasizes the importance of that West Virginia contract.

Q. Well, it is all important, isn't it?

A. Oh, yes.

Q. But what is the point about this peak demand, that it makes the furnishing of gas more expensive, more costly?

A. Yes, because the load factor of the company's production is very much lower than that of the individual producers.

Q. But every rate case takes those fluctuations into consideration. If you had a perfectly evenly distributed load throughout Ohio, you could furnish gas at much less than you say you can furnish it now, doesn't that follow?

A. The cost of furnishing it would be less than it is

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[fol. 1909] under the normal conditions at present, yes.

Q. In other words, all of these conditions that you speak about, peak demands, the peaks and the valleys, all enter into and become a part of the set-up of a rate case, don't they?

A. That is quite true, and the reason for showing it here and emphasizing it here is to point out the fact that the individual producers, independent producers, having a much more uniform load and a full output for their gas, can afford to sell it cheaper than the company's gas.

Q. In other words, in the gas business, there is a peak demand and that in itself, apart from other things, puts an additional burden upon the business, doesn't it?

A. Yes, sir.

Q. And it enters into your determination of any proper rate?

A. Decidedly.

Q. It is reflected in your operating expenses and in your capital invested, isn't it?

A. That is correct.

Q. Surely, when a pool is partially drilled, the rock pressure is going down. Suppose you want to continue to get as much gas, as many m.c.f. out of that pool as you did in the years gone by, what do you do?

A. You are now confining yourself to that one pool, I presume?

Q. That one pool, yes.

A. The only way you can do it is to drill additional wells or install additional compressor stations.

Q. In other words, if you have a pool with a certain number of wells, you have to determine whether you will take the gas out through a longer period of time with the wells you have or add to your capital charge and drill more wells

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[fol. 1910] and take it out in the less period of time?

A. That is true, and if you add to the capital charge, you are doing it on a declining property.

Q. Yes.

A. And you will never be able to pay it out, probably.

Q. Those two situations confront you as an operator if you own the whole pool, don't they?

A. Yes.

Q. And you have to determine as a matter of good judgment and common sense through your operating experience whether you will do the one or the other?

A. Yes.

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[fol. 1911] Q. In 1929, June 30th, the Ohio Fuel Gas had 2,065,421 Number 4 acres out of a total of 2,834,187?

A. Yes.

Q. You told me the other day that you didn't consider that too much acreage for the company to hold?

A. I don't think it is too much, although I don't pretend to have a detailed knowledge of the conditions in the field.

Q. Well, I tried, you remember, and I thought maybe you had reflected upon it—and yet I imagine you have been busy, busier than we have—but I thought possibly you had reflected on what we tried to get. Where would you stop, where is the proper line of demarcation?

A. The stopping point depends upon conditions existing at the time you are considering the matter, such as the amount of money that the company can reasonably afford to spend each year in carrying acreage and the competitive conditions in the field, the performance of their producing

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[fol. 1912] acreage as to the possibility of continuing the service with it, and a great many conditions which can hardly be generalized, but which form the basis of the judgment of the management as to how such acreage to carry.

Q. I think you said to Mr. Turner that out of Number 4 acreage, you would expect to get 10 per cent of Number 1?

A. I think I said that would probably be a fair average result. That is a difficult thing to express.

Q. I quite appreciate that, Mr. Weymouth. It reflects your good engineering judgment. I have no disposition to hold you closely to that, but it gives us your point of view. Taking your class 2 acreage, 164,739, how much Number 1 would you reasonably expect to get out of that?

A. Well, under normal conditions, you would expect that you would get a larger percentage upon that for the reason that it is closer in to proven production.

Q. Yes, I know, but I am trying to get you to approximate a per cent that satisfied your best judgment?

A. I can't give any per cent. You have to study the particular acreage to express any figure.

Q. How can you give a figure on the Number 4 and not be able to give a figure on Number 2?

A. I said 10 per cent, judging from the fact, that, to the best of my recollection, the number 1 acreage the company had consisted of about 10 per cent of the total acreage they had.

Q. Oh, I am not criticising you for that, Mr. Weymouth, I know how difficult that is, and the point I am getting at really is that that is almost an impossible thing to estimate?

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[fol. 1913] A. You are quite right.

Q. Yes, because that 291,000 in Number 1 may fairly reflect the 10 per cent, or it may have been picked up as Number 1 acreage, then, of course, it would have no relation to your Number 4 acreage.

A. Well, I would like to correct that statement, Mr. Butler. None of this acreage is picked up as Number 1 acreage. The acreage is taken without any regard to classification of this kind, the classification having been made purely for purposes of appraisal and to facilitate the establishment of unit prices on the different kinds of acreage, but the acreage as a whole is taken up, then as the drilling operations proceed and the productivity of the acreage is proven, it is then put in operated or unoperated, according to the company's operations, and for the purposes of appraisal it would be then divided into the classes, if you used the method adopted.

Q. Oh, but don't you know, Mr. Weymouth, that many, many thousands of acres of this Number 1 when taken by the Ohio Fuel Gas was already Number 1?

A. Well, they may have bought acreage which was producing acreage and which, when classified, would be Number 1, and was Number 1 character when it was bought.

Q. Yes, sure. Well, coming back to the Number 2, you don't want to venture how much of that would be Number 1?

A. No, sir, I couldn't even make a guess.

Q. And how much of Number 3 would become Number 1?

A. No.

Q. All right. You spoke about the amount of Number 4 that you would carry for the total number of acres you

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[fol. 1914] would carry would be dependent upon how much the company could stand to carry?

A. Yes, I said it would depend upon the revenues of the company.

Q. Well, in your construction of a rate, do you conceive that rate fixes with the operating charges, including the rentals on unoperated acreage, or do you conceive of the company paying that outside and without any relation to the rate case?

A. Will you read that question, please?

(Question read.)

A. First of all, let me say that I assume that the acreage which the company now holds was acquired in the ordinary course of its business, applying the best judgment of the officers of the company.

Q. Of course, that isn't my question.

A. And that it was not acquired for the purpose of determining the rate. That being the case, I think that the rate of charge which should finally be fixed by the Commission should take full account of the operating expenses incurred by the company in carrying all of t-is acreage of whatever sort.

Q. Well then, what do you mean by saying that the amount of acreage would be determined by what the company could stand or spend? If it goes into a rate, into a regulated rate, and if the Commission allow those as part of your operating expenses, why, you could carry a tremendous amount of acreage? I am not saying that to persuade you to leave your theory, but I want you to define it. You gave a measuring stick that seems to me to measure nothing.

A. I mean simply this, the Commission fixes the rates of charge for the company. Let us assume that a rate is in operation.

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[fol. 1915] The company looks primarily to the maintenance and perpetuation of its service, that is, the purpose for which it is in business, is to give gas service and to give a satisfactory service. To do so, it is necessary for it to build up its supply of gas upon which the whole structure depends. The company does this to as great an extent as is possible under the existing rates, charged for the service. If conditions are such that the revenues of the com-

pany declines, as they have during this recent depression, and the company can not afford to carry as much acreage as it feels should be carried to protect its service, if will then have to refrain from adding acreage.

Q. Yes. Assume your theory is correct for the moment, that the Commission must allow as operating charges, the rentals on all proper acreage, now the company, if unrestrained, could just go on indefinitely, because automatically, the rate would go up to correspond to those increased operating charges. Now, where do you stop? Where do you want the Commission to stop?

A. It would be necessary for the Commission in that case, or the city, to prove that the company had been imprudent in its acquisition of acreage; otherwise, the presumption is that the company has used the best business judgment available and has acted in accordance with it.

Q. So you think the burden would be on the company to prove it?

A. In that case, yes.

Q. Whether it is used and useful?

A. Yes.

Q. You think that is quite a proper scientific conception of what is used and useful, to throw the burden on the rate payer?

A. If the claim is made that the company has excessive

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[fol. 1916] carrying charges for its acreage, then I think the burden of proof is upon them, sure.

Q. Is the burden, if a question arises about machinery, building, is the burden on the city or on the rate payer?

A. You mean as to the necessity of having the machinery?

Q. Yes, whether it is used and useful?

A. If the City claims it is not used and useful, the burden is upon them to prove it, surely.

Q. Mr. Weymouth, I was about to ask concerning the United, that you have not in your short period with the Columbia given much attention to the operating conditions of the United, have you?

A. No, I have not.

Mr. Butler: I would give a good deal to have Mr. Carter back for an hour. I wonder if you would agree to bringing him back for me, Mr. Turner?

By Mr. Butler:

Q. Mr. Weymouth, I think that there is nothing else, except I would like for you to clarify when Number 1 acreage goes out, do you put it back to Number 2, to Number 3 or Number 4, or do you kill it for all purposes?

A. In the operations of the company, Number 1 acreage is not recognized as such. The company's acreage is all classified as operated and unoperated. If an individual lease has production on it, and all of the wells on that lease have been abandoned, and there is no prospect of drilling further producing wells on the lease, that lease is then surrendered and the acreage goes out of the picture.

Q. Yes. You don't put it back into unoperated?

A. Oh, no, no, it is abandoned, the lease is surrendered and goes off the books entirely.

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[fol. 1917] Q. And once you bring it over from unoperated into operated, it is either used or buried?

A. Yes.

Mr. Butler: I see. I think that is all, sir. Thank you. I feel a little guilty in bringing you back from New York, but my regrets didn't help you much, I understand.

[fol. 1918] Mr. Weymouth testified on re-direct examination as follows:

[fol. 1919] Q. Are you familiar with the classification of wells in The Ohio Fuel Gas Company? That is, they have A, B, C, D, E, wells, do you know what those letters mean?

A. No, I don't.

Q. Well, the D and the E wells are the wells of the company. The E wells are the absolutely protected. The D wells are not thoroughly protected wells. The testimony in this case shows that the D and E wells are turned on last. Now, when these D and E wells are turned on last at the time of peak demand, what would be the effect in the line pressure caused by turning those wells on upon the purchased gas wells that were trying to feed into that same line at the same time, could the purchased gas wells feed as much gas into the line as if the D and E were not feeding?

A. No. The turning in of the high pressure protected wells would raise the line pressure and that, of course, would

result in a decrease in the flow from the purchased gas wells.

Q. Referring to this Exhibit 182 and the Winans' graph that Mr. Butler showed you which we will identify as 172-B, —we have called it B, that wasn't quite right, but we have called it B—I will ask you whether those graphs indicate the presence or absence of reserves on the part of the United?

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[fol. 1920] In other words, could you tell from the graphs alone?

A. I don't see how these graphs could give you any indication of the reserves they have to an extent greater than the productive capacity of the graph.

—. Well, let me ask you this question, did those graphs show a fluctuation in the supply from the United?

A. Yes, that is just what they do show.

Q. I think you have made it pretty clear that you don't buy gas lands in these classifications, but that you do buy gas lands and these classifications are the result of proving these classes?

A. Yes, I think I have. The classification is simply an allocation made after the lands have been proven.

Q. And we have in this case now 291,000 acres plus of so-called Number 1 lands which have been appraised as Number 1, and we have here offered in this case a theory of reproduction of those 291,000 plus acres. From your experience in the natural gas business, do you think it would be possible, not probable, but even possible, were there no Ohio Fuel Gas Company here in the State of Ohio, to go out and just buy 291,000 acres of Number 1 leaseholds without anything else?

A. No, I don't think it would.

Mr. Turner: That is all for the present.

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[fol. 1921] Cross-examined by Mr. Butler:

Q. In Mr. Davis' testimony in the United Case in West Virginia, which is a part of this record in this case, he estimated the gas reserves as you probably know?

A. Yes.

Q. And in discussing that, among other things, in one of his answers he said this: "Now, taking the individual

group of wells which I have considered as a unit, I have found what the production of those wells has been in each of several recent years, and for this purpose I have used the last five years; and I have also found for the same period what their average decline in rock pressure has been, and I find that the decline in rock pressure is proportioned to the gas production, a remarkably close relation." Do you accept that as a fair statement?

A. That is a statement of what he found prevailed in this case.

Q. I am asking you whether that is a statement of what prevails under average conditions?

A. That is the condition that would prevail in a closed reservoir where there was no water producing that pressure, yes.

Q. What is the condition of the Ohio gas lands in respect to water as compared with West Virginia?

5430

[fol. 1922] A. I believe there is little or no water in the Clinton sand, but I cannot speak with authority on that.

Q. Well, West Virginia——

A. Oh, you are speaking of West Virginia? I was speaking of Ohio.

Q. No, you were quite right. I was referring to both and your answer was directed to Ohio.

A. To Ohio, yes, sir.

Q. I am saying that West Virginia is also remarkably free from the water, is it not?

A. I can't say as to that, Mr. Butler. I am not so familiar with those sands.

Mr. Butler: I think that is all Mr. Weymouth.

Mr. Turner: That is all.

[fol. 1923] LEON J. PEPPERBERG testified on cross-examination as follows:

5369

[fol. 1924] Q. You were talking the other day in your direct examination about these different classes of acreage, 1, 2, 3, 4. When Mr. Davis was on the stand down in the United Case, and that testimony is here, he gave a definition of Number 4 and I want you to tell me whether you

accept it, and, if not, why not. "Class 4 is acreage which is isolated from any prodiction, acreage upon which drilling, wherever it has been conducted, has resulted in no production. It's acreage that has no particular indication that it will be productive other than it lies in the general gas field belt and it is possible that gas will be found within that Class 4 acreage although none is known now."

A. I would like you to repeat the first part of that question, please.

Q. Well, I want to know whether you accept that as a proper definition of Class 4 acreage?

A. I have never made any classification of this company's property.

Q. Did you use those terms without any——

A. I don't remember using the terms.

Q. Oh, yes, you did, but the record will show that. Well, what you mean to say now is that you, as the head of the geology department, of the Columbia Gas & Engineering Company, have not given any attention to the qualities or

5370

[fol. 1925] characteristics that make up Number 1 acreage, Number 2 acreage, Number 3 acreage or Number 4 acreage.

A. I didn't state that.

Q. Well, I am asking you that.

A. I have given some attention to quality of land, but not as one, two, three and four presented in this hearing.

Q. Have you a 1, 2, 3, 4, of your own?

A. Well, yes, I have, certainly.

Q. Well, define your four then.

Mr. Turner: Of course, he hasn't used any terms like that in this case, Mr. Butler.

The Witness: I haven't, as far as I know, testified to anything about 1, 2, 3 and 4.

Q. Tell me your four?

A. My four?

Q. Yes.

A. The way we are selecting Number 4 acreage, as I understand it from the definition used in this case today——

Q. I don't care how you are selecting. I want to know what, in your mind, are the characteristics of what you call Number 4.

Mr. Turner: Objection. I don't see how that is material. This witness has not offered any classification. It cannot be cross-examination on anything because his definition doesn't make any difference one way or the other.

Commissioner Bricker: I think he may answer.

Mr. Turner: Note exception.

Commissioner Bricker: Note exception.

The Witness: We are directing the leasing of lands for the Columbia system at the present time in untested territory——

Q. Mr. Pepperberg, that isn't my question. I know, you 5371 [fol. 1926] can answer it presently and say whatever you please, but I must most respectfully ask you to answer my question. If you can't, I shall take your no?

A. I will answer it.

Q. All right, go ahead.

A. In my opinion, Number 4 acreage, as I understand it from my own use, would be prospective gas land which has not been tested, neither condemned nor proven, selected——

Q. Neither condemned nor proven?

A. Neither condemned nor proven, selected in likely territory.

Q. What if there had been a dry hole on some acreage, what would you do?

A. If the dry hole had been drilled deep enough to prove the absence of gas in any possible gas-bearing formation beneath that territory, that territory would be condemned for a small area surrounding the dry hole.

Q. How small an area?

A. Oh, 200 acres, and that might not be right because you might go 200 feet from that dry hole and get a gas well.

Q. Yes, and you might get a gas well and go 200 feet from that and get a dry hole?

A. Certainly.

Q. Yes. Do you mean to tell this Commission that any leases this company had would be continued and leased as Number 4 until all of the possible gas-bearing strata had been drilled and found wanting in gas?

A. Found wanting? Yes, sir.

Q. All of them have to be——

A. I didn't get that.

Q. Suppose you took a couple of the prominent sands and you found nothing, what is the best type sand nearer as you go down, which good sand do you find first?

A. In some areas, it is the Berea, that is the common

5372

[fol. 1927] type sand, and the next one is the Clinton beneath that.

Q. Suppose you had drilled through both of them and found no gas, but there are other strata beneath, you still wouldn't condemn it?

A. No, I wouldn't condemn it, not on one well.

Q. You don't think this definition that I read you is correct, do you?

A. No, sir.

Q. Why not?

A. I wanted you to repeat the first part of that.

Q. "Class 4 is acreage which is isolated from any production, acreage upon which drilling, wherever it has been conducted, has resulted in no production. It's acreage that has no particulation indication that it will be productive other than it lies in the general gas field belt and it is possible that gas will be found within that class for acreage, although none is now known."

A. Well, the first part of that definition assumes one position and the latter part of it another. Hitching the two together, it isn't a bad definition, but I personally would not use that as Class 4.

Q. You think it is too harsh?

A. I think it is to long.

Q. It is a little like your graphs?

A. Possibly.

Q. Do you think it is fair to complain of length, Mr. Pepperberg? What do you say about this as a good definition of 4, "Leases of tracts of lands situate within the areas of territory where gas sands are known or assumed to exist from general geological conditions, but which are so remote from actual gas producing wells or territory that they are merely prospective gas lands?"

A. I concur with that.

5373

[fol. 1928] Q. You subscribe most heartily. Maybe you helped to frame that, did you?

A. No, I did not.

Q. Have you assisted in dividing the gas lands of the Ohio Fuel Company into 1, 2, 3, 4?

A. No, sir.

Q. Have you looked over their maps?

A. Yes, sir.

Q. And have seen the division?

A. Since it has been made.

Q. What do you do with Number 1 acreage when a well is abandoned?

A. You are asking me that question, what I would do personally with it?

Q. Yes, yes. You see you are an expert and a geologist. It may be a bad combination, I don't know, Mr. Pepperberg. Yes, I am getting your judgment.

A. It would be according to the conditions in that particular district. If that Number 1 acreage—before it could be Number 1 acreage, as I understand the definition here, it would have to have a gas well on it. The drilling of a dry hole on that same lease would merely condemn a small portion of that lease, and I think, although I can't be certain, because I don't have anything to do with this 1, 2, 3 and 4, acreage, that our maps continually change, the status of the various leases. 4 will become 1, 3 will become 1, 2 will become 1, part of 1 will become 4 or go out entirely, if it could be separated beyond lease lines, but we can't separate it beyond lease lines, so it would still remain Number 1, although one part of Number 1 would be condemned.

Q. Suppose you have a lease of 640 acres, that is a Section, isn't it?

A. That is a section.

Q. As I remember from school days. And you put a gas well on it——

A. Yes, sir.

5374

[fol. 1929] Q. What do you do with the 640 acres?

A. Class 1, according to this definition here.

Q. But suppose instead of that, you get a dry hole, what do you do with it?

A. Well, it wasn't Class 1 to start with then, was it?

Q. I don't care whether it was anything to start with, you just owned it.

A. It was 4 before it had a well on it.

Q. Well; all right.

A. If a dry hole were drilled on 4 it would still be 4.

Q. Why was it 4 before it had a dry hole?

A. I don't know, I didn't classify it.

Q. I am talking about your classification. You have agreed with this classification of 4, for example.

A. It is still prospective gas land, it would be 4. It is the lowest quality of land that you have a definition for here, and there was a reason for taking the lease or it wouldn't have been taken.

Q. One gas well makes one out of it, one good gas well makes Number 1 acreage out of the lease?

A. Yes, sir.

Q. But one dry hole merely leaves it in 4?

A. Certainly.

Mr. Turner: Of course, that isn't the testimony here of what was done in this case, Mr. Butler. He is talking about his own opinions.

Mr. Butler: Oh, yes, I know.

Mr. Turner: And that isn't the opinion of the men that created this classification.

Mr. Butler: Here is the head of your geological department.

5375

[fol. 1930] Mr. Turner: Exactly so, and between operated and unoperated acreage, he can tell you all about it.

Q. How many dry holes would you have to have on that 640 acres before you threw it out and ceased to carry it even as Number 4.

A. That would we according to the territory that particular 640 was located in. If that dry hole were drilled in the corner of the 640 acres adjacent to a gas well and it was dry, it would merely condemn that corner of that lease. It wasn't Number 1 to start with, it was Number 4 to start with.

Q. Suppose a gas well is drilled in the corner, why does that operate to take Number 4 all over into Number 1?

A. I didn't make this classification.

Q. I am talking about your classification now. Don't get confused. You have defined Number 4.

A. It is still prospective gas land with a dry hole on it.

Q. Well, isn't a large part of it still prospective with the gas well over in the corner?

A. Not in a developed pool, no.

Q. Not for the purpose of the rate case, is that what you mean? What do you call Number 1 in your category?

A. In my category, my Number 1 would take in your Number 1 and 2.

Q. You would really only have 1 and 2 combined in 1, and would you have a Number 3?

A. Possibly.

Q. I don't know about that. I want to know.

A. There would be areas outside of 1 and 2, but that would be Number 1, Number 1 and 2 would be combined in my classification.

Q. The Numbers 1 and 2 that they have here, you would make a Number 1?

A. Yes, sir.

5376

[fol. 1931] Q. Now, what would you do with the rest of your acreage, what would you call that?

A. 3.

Q. And that would be what you define as 4 now?

A. Practically.

Q. So you just have 1 and 2, really, wouldn't you, since your 1 and 2 would all be Number 1, and you would put your 3 and 4 into a 2, wouldn't you?

A. Practically.

Q. I don't know what you mean by "practically".

A. Yes.

5491

[fol. 1932] Q. Did you qualify the other day as to 1, 2, 3, 4 acreage?

Mr. Turner: He did not.

Q. Or do you disclaim any particular right or ability to divide the acreages?

A. I had nothing to do with the classification as presented in this case.

Q. Well, have you examined into it far enough in this particular matter to say whether you approve of this or not?

A. Yes.

Q. And you do approve of this classification?

A. Now, just a moment, I will say no to that. You were asking me the other day, I want to get this part just

straight, you were asking me the other day about my ideas
5492
[fol. 1933] on gas land. Now, you are asking about classification. On the company books, we carry operated and unoperated leases. If I were classifying, the blue area next to the gas well in the northwest quarter of Section 3, I would hardly put that in as Class 2 nor the adjacent area as Class 4.

Q. What would you put them in at respectively?

A. I have nothing to do with the classification for this purpose, Mr. Butler. I would be thinking more in my work of the value of the gas land as demonstrated by completion of wells, not by lease lines and things of that sort.

Q. Well, but you say you wouldn't put the one in as two and you wouldn't put the other in as four?

A. I would put them in as Number 1.

Q. You would put all that in as Number 1?

A. Yes, sir.

Q. That is there where there is an abandoned dry hole, you put that in as Number 1?

A. Yes.

Q. Just tell the Commission why. No doubt you have a reason satisfactory to yourself.

A. I assume you are speaking of the abandoned dry well on the Lozier tract in the northeast quarter of Section 3?

Q. Yes.

A. That well was drilled to the Clinton Sand, a dry hole, and was not shot, and the tract is offset on the northwest corner by a producing Clinton gas well and on the southwest corner by a producing Clinton gas well, and all that that hole shows that is on the Lozier tract is that gas was not produced within the few inches surrounding that hole. It does not show that the two wells mentioned, Well Number 979 and 1781, are not drawing part of their supply from the north and south ends of the tract that has a dry hole on it.

5493
[fol. 1934] Q. The other day you told us only the drill could tell the presence of gas, and if what you say is true, how can you convert a whole lease into Number 1 when you get one gas well on it and get it in the corner of it or at the edge?

A. That is the way the company carries it as operated and unoperated and I don't know that they convert the whole lease by one well into Number 1.

Q. Well, would you?

A. If the lease was compact and had development surrounding it that proved it up, I would certainly call it Number 1.

Q. How many acres?

A. Well, take another instance here in the northeast part of Section 3——

Mr. Turner: Call the tract and we can identify it, whose tract?

The Witness: Shear, the Shear tract and the Lozier tract, we have two gas wells, 4307 and 798. Half a mile northeast on the Kirk tract there is a gas well. If I were classifying this for the company to purchase property, I would call to Tope tract, 80 acres, between those three wells, Number 1.

Q. Then on the Sprang lease, there is a dry hole?

A. Which lease, please?

Q. On the Sprang lease west of the Tope lease?

A. Yes, sir, there is a dry hole there.

Q. And as close relatively to the Tope property as your wells?

A. No, sir.

Q. Your two wells are down at the extreme end, aren't they?

A. The two wells offset the southwest corner and the other well practically offsets the northeast corner, and

5494

[fol. 1935] the dry hole you speak of is more than twice the distance from the west line of the Corwin-Tope tract.

Q. You classify the Sprang lease as Number 1?

A. I don't see Sprang.

Q. Sprang is west, Mr. Pepperberg, of the Tope. Philip and Mary L. Sprang. What would you classify that?

Mr. Turner: That is Sprang.

Q. It is Sprang, yes. I misled you.

A. Yes, I would classify that as Number 1.

Q. Why?

A. It is offset along its south line by producing wells which must be drawing gas from its south part. It is not a great distance from wells on its north line that are producing gas and one Clinton well will not condemn the tract, a dry hole.

Q. It may not condemn the tract, but good gracious, you mean to say that with a dry hole there, that you would still keep the whole thing as Number 1?

A. Yes, sir.

Q. In that lease, how many wells are there on it?

A. On the Sprang?

Q. Yes.

A. I will have to have that exhibit I spoke about to locate the gas well that is on that lease. If the city will furnish us with our Exhibit 145, I can find that well.

Mr. Turner: You mean it is shown here, but you can't tell the lease lines, is that it?

The Witness: I can't tell the lease lines, yes, sir.

Mr. Butler: All right, we will just let it go.

Mr. Turner: That data all appears in that exhibit, does it not, Mr. Pepperberg?

The Witness: Yes.

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[fol. 1936] Q. Well, anyway, you would carry it as Number 1 acreage?

A. Yes.

Q. Even north of the dry hole?

A. Yes.

4505

[fol. 1937] J. Paul Blundon testified on cross-examination:

Q. Are you sufficiently familiar with the gas fields in Ohio to say whether or not it has been necessary to abandon fields?

A. I am not.

Q. Or how long a period do you say or have you the ability to say that the No. 1 leaseholds will supply the customers of The Ohio Fuel Gas Company?

A. I could only testify as to that from the record. I have not made an examination myself.

Q. What do you mean, testifying from the record?

A. I have read some of the record in regard to your gas reserves and your annual consumption and I could only

4506

[fol. 1938] testify from other people's testimony in regard to the gas reserves.

Q. Well, did you take their testimony into consideration in getting this factor of 6.6?

A. No, sir.

Q. What is your information or knowledge on the subject of whether or not gas underlying No. 2 leaseholds is drawn out through No. 1 operations?

A. I have not made an examination of your maps to be able to testify on that.

Q. Wouldn't it be necessary for you to do that before you could say that No. 2 was not used and useful?

A. No. 2 is not now drilled and ordinarily I would say that it is not useful. I have not gone into the matter of No. 1 acreage, No. 2 acreage, No. 3 acreage and No. 4 acreage, and I am not testifying to that at this time.

Q. Well, it seemed to me that you were when you allocated property here and used only the No. 1 leaseholds. I may be mistaken. If I am I would like to have you straighten me out on that.

A. I think you are mistaken. I think I testified that the amount that I included in leaseholds was an arbitrary value of $5.00 per acre for the No. 1 leaseholds.

Q. And nothing for No. 2, 3 or 4?

A. That is correct.

Q. Now, how do you know, if you haven't made an investigation to see whether the No. 2 has been drawn from, as to whether or not that is used and useful in supplying customers of the Ohio Fuel Gas Company?

A. I have not testified, sir, either that it was used and useful or that it was not used and useful.

Q. That is just exactly what I wanted to get at here, I thought you had.

A. No, sir.

Q. Then you do not claim to have included all of the used and useful property of the Ohio Fuel Gas Company in making your allocation?

4507

[fol. 1939] A. I wouldn't say that I had or had not.

Q. Well, which is the fact?

A. Well, I wouldn't say—I wouldn't testify either one way or the other. The value that I have included there for leaseholds is an arbitrary value of $5.00 per acre of the No. 1 operated.

Mr. Turner: Well, may I have an answer to the question? If it is too awkward to understand, I will reframe it. Will you read the question?

(Question read as follows: "Then you do not claim to have included all of the used and useful property of The Ohio Fuel Gas Company in making your allocation?")

Mr. Davies: He has answered that question directly.

Mr. Turner: Well, this is cross-examination. I am asking him. If he has answered it directly, I challenge the point where he has answered it.

Mr. Davies: He said he didn't pretend to say either one or the other. He used an arbitrary figure.

Mr. Huffman: We thought the law in Ohio was rather settled on that question, anyhow, Mr. Turner.

Mr. Turner: Yes, I thought it was settled on lots of things.

The Witness: My answer is that I do not attempt to say whether the No. 2, 3 and 4 is used and useful or is not used and useful, that the figure that I have included for Leaseholds is an arbitrary value of $5.00 per acre for the No. 1 operated.

Q. And nothing is included for any of the other classes?

A. And nothing is included for any of the other classes.

Q. And you exclude from the expenses in ascertaining the bare gate rate all delay rentals, have you not?

4508

[fol. 1940] A. I have not. I took the expenses as testified to by Mr. Allensworth.

Q. Well, Mr. Allensworth's figures do eliminate all the delay rentals, do they not?

A. I would prefer to ask him.

Mr. Huffman: We will say that they do, if you want it.

4514

[fol. 1941] Q. That is the testimony in our case here. Are you competent to answer the question as to whether The Ohio Fuel Gas Company needs any reserves other than

its No. 1 leaseholds to discharge its obligation to customers in the state of Ohio?

A. I am not competent to answer that question at this time.

Q. Well, you were not competent when you made the allocation, were you, that is, to answer that question?

A. No, sir.

Q. What is the total sum that you have used for the used and useful gas lands of The Ohio Fuel Gas Company?

A. I have included in my report $1;459,010.00 for leaseholds and explained that this was at the rate of $5.00 per acre for the No. 1 acreage.

Q. I have got all that.

A. The additional explanation that I was not fixing a value for those leases, but had included it as an arbitrary price and that $1.00 change in value per acre of the No. 1 leaseholds, would result in certain changes in the gate rate at Columbus.

Q. Did you give that same explanation in respect of the United?

A. I thought that I did, sir.

4511

[fol. 1942] Q. In what field did you ever buy or sell a gas lease?

A. I have never bought or sold a gas lease and I don't ever expect to buy or sell a gas lease, but I have made an examination of all of the lease- which have been taken or transferred in the gas-producing counties of West Virginia

4512

[fol. 1943] in the five years preceding December 31st, 1930 and have undertaken a rather comprehensive study of those leases and such transfers.

[fol. 1944] Mr. Blundon testified on direct examination as follows:

4610

[fol. 1945] By Mr. Davies:

Q. Mr. Blundon, have you prepared a study of the reproduction cost of leaseholds on No. 1 acreage based on company exhibits 146, 147 and 148 and City Exhibits No. 71, 72 and 73 entitled "Ohio Fuel Gas Company Detailed List of Gas Lands as of June 30th, 1929"?

A. I have.

Mr. Davies: Mark this City's Exhibit No. 86.

And thereupon the paper writing above referred to was marked for the purpose of identification as City's Exhibit No. 86.

Q. Mr. Blundon, I hand you what, for purposes of identification has been marked as City Exhibit No. 86, and ask you if that is such study?

A. It is.

Q. As to which I have just inquired?

A. It is.

Q. Will you please explain that study and that Exhibit No. 86?

Mr. Turner: Objection upon this ground, that Mr. Davies' question went to the cost to the company basis for this reproduction cost and asked the witness if he had prepared them in view of cost bases. I take that from the exhibits referred to.

Mr. Davies: The study is made upon them, yes, based upon the information that he gets from them, in addition to other information, of course.

Mr. Turner: We object to the use of original cost as reproduction cost.

Commissioner Geiger: Objection overruled.

Mr. Davies: I am asking him to explain the exhibit.

4611

[fol. 1946] Mr. Turner: Did you say overruled, Judge? Exception.

The Witness: This exhibit is an estimate of the cost of reproduction of the No. 1 acreage of the Ohio Fuel Gas Company. In preparing it the consideration or price paid by the company in 1927, 1928 and 1929 as shown by the exhibits which have been previously introduced in this case.

Mr. Turner: You mean the city Exhibits?

The Witness: They are company exhibits 146, 147 and 148 and city exhibits 71, 72 and 73. The average price paid by the company as shown by those exhibits for No. 1 acreage——

Mr. Turner: May I just save a lot of time, got it straight? There is no information in Exhibits 146 to 148 as to prices paid, is there?

The Witness: No, sir.

Mr. Turner: Well, that is all right.

The Witness: Where did I leave off?

(Previous answer read as follows: "The average price paid by the company as shown by those exhibits for No. 1 acreage"——)

The Witness: (Continuing:) In 1927, 1928 and 1929 was $2.05 per acre. This average includes three leases for which an unusually large consideration or a consideration above the average was included. If these three cases be excluded, the average price paid for No. 1 acreage in 1927, 1928 and 1929 is 62 and a quarter cents per acre.

To the average price paid as consideration for the acreage we have added the sum of $10.00 per lease for the checking of the title. We have added a fee for a geologi-

4612

[fol. 1947] cal survey at the rate of 25 cents per acre, and a fee to the lease agents of 25 cents per acre, notarial acknowledgments at the rate of 50 cents a lease, and recording at the various legal rates for the different types of leases.

In preparing this estimate of the cost of reproduction it was assumed that the leases would be reproduced over the two year period, it being the same period that was used in connection with the physical property, and well rentals at the various rates provided for in the various types of leases was included for a period of one year, it being the average length for which such well rental would be necessary.

To the sum total of the amounts previously outlined, we have added general overhead costs, as are shown on page 3 of this exhibit. They include organization, general office and clerks' salaries during construction, general office and clerks' expenses during construction, office supplies and expenses during construction, taxes during construction, other expenditures during construction, and interest at the rate of 6 per cent for an average period of one year. The exhibit——

Q. Just a moment now, that makes a total of how much, Mr. Blundon, as shown on page 3?

A. That makes a total cost of reproduction as shown on page 3——

Mr. Turner: We object to the question because that is not the way to value gas leaseholds in this state under our statutes.

Commissioner Geiger: Well, I think he may answer the question.

Mr. Turner: Note an exception.

Commissioner Geiger: It goes simply to his explanation.

4613

[fol. 1948] The Witness: My answer is $1,569,479.88.

Mr. Turner: Motion to strike out.

Commissioner Geiger: Overruled.

Mr. Turner: Note an exception.

Q. Now, explain the exhibit further, beginning with pages 4 and on.

Mr. Turner: If the Commission please, that we may not be continually interrupting in this examination in respect of this exhibit, we wish to have an objection appear to each of the questions, that is, considered as appearing at each of the questions and exception to the ruling and motion to strike on the grounds that they are immaterial, incompetent and irrelevant to the issues in this case, as well as based upon the costs.

Commissioner Geiger: Very well.

A. Beginning at page 4 we have a summary by accounts——

Q. Of the detailed information as you have given it?

A. Of the detailed information as I have given it. Page 2 and 3 show those accounts all brought together and worked out to a total.

Commissioner Bricker: One question before we go on with the next exhibit, if I may, Mr. Davies. Have you

4614

[fol. 1949] read the decision of the Supreme Court of Ohio in the Logan Gas Company leaseholds' valuation matter?

The Witness: I have read it, sir, but I wouldn't say I was familiar with it.

Commissioner Bricker: Do you feel that this valuation, or is it your best judgment that this valuation which you present here on the leaseholds is the proper basis for determining a rate base?

The Witness: In my opinion this exhibit expresses the cost, the full cost to the company of obtaining No. 1 acreage in the years 1927, 1928 and 1929. I wouldn't like to compare this exhibit with the decision that you referred to without having it here before me. I did not read the decision in connection with the preparation of this exhibit, but I have read it at a previous date.

Commissioner Bricker: This purports then to be nothing more, in your judgment, than a reflection of the cost to the company of the No. 1 leaseholds?

The Witness: Yes, sir.

Commissioner Bricker: What is your best engineering judgment as to the proper valuation for those leaseholds for rate making purposes, providing that we are making a rate for the Ohio Fuel Gas?

The Witness: In my opinion the amount that I have set forth in the totals in Exhibit No. 86 represent a fair value of the leaseholds of the No. 1 operated acreage of the Ohio Fuel Gas Company.

Commissioner Bricker: Either in fixing the rate or arriving at a fair rate to the company?

4615

[fol. 1950] The Witness: Yes, sir.

Commissioner Bricker: Are there any other elements of value that you, as an engineer, would recognize in this No. 1 leasehold acreage?

The Witness: No, sir, not for rate making purposes.

Commissioner Bricker: For any purpose?

The Witness: It is possible that for sale to someone else where the value of the gas as sold in regulated markets is considered, that they would — a higher value, but if robbed of the value that a utility gives them, this is a fair value. I mean by that that if leaseholds, we will say, have a value of $100 an acre, that allows them to get the Ohio price for gas, and in turn would then serve as a value for the Ohio value of leaseholds. In other words, you swing into the vicious circle.

Commissioner Bricker: Now, comparing your exhibit here with the valuation allowed by either the Commission or the Supreme Court in the West Virginia case, what is the relation of this exhibit to the valuation or to the method used either by the court or the Commission there in ascertaining the value of No. 1 leaseholds?

The Witness: In the West Virginia case the Commission adopted figures which represented the original cost to the company for the 1, 2, 3, 4 acreage. An exhibit was submitted in the West Virginia case similar to this exhibit except that it was based on classes 1, 2, 3 and 4.

Commissioner Bricker: And this is only——

The Witness: This is on Class 1. Now, the total amount

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[fol. 1951] found by this method as outlined in Exhibit 86 when applied to classes 1, 2, 3, 4, was about 10 per cent. less than the original cost to the company as found by the Commission in the West Virginia case. In other words, the Commission found the value of all the leaseholds in the West Virginia case of $7,914,037.00, and the value of those leaseholds as found by this method in the West Virginia case was——

By Mr. Davies:

Q. You mean this method, you are referring to Exhibit No. 86?

A. Yes, sir, referring to Exhibit No. 86. Was $7,126,421.16.

By Commissioner Bricker:

Q. Do I get from that that $7,000,000 was by the application of the method which you applied to No. 1 leaseholds in Ohio to the total classification in West Virginia or just to the No. 1 classification?

A. To the total classification.

Q. To the total?

A. Yes, sir, 1, 2, 3, 4.

Q. What would be the valuation, applying your method used and pursued in this exhibit to the total classification in Ohio, if you have worked it out?

A. I haven't worked it out, no, sir. My instructions were to cover only No. 1.

Q. You don't know what that would be?

A. No, sir.

Q. You are not then on a comparable basis with the valuation that was actually found in West Virginia?

A. No, sir, in that respect. We are on a comparable basis so far as No. 1 is concerned.

Q. Yes, but they gave them in West Virginia the valuation of No. 1, 2, 3 and 4 leaseholds?

A. That is right.

Q. And in Ohio you felt restricted to No. 1 from the decision in the Logan Gas case?

A. That was my instruction from the attorneys.

4617

[fol. 1952] Commissioner Bricker: I assume that was the basis for it.

Mr. Davies: Yes, that was.

By Commissioner Geiger:

Q. How did the determination of value as to leaseholds No. 1 in West Virginia compare with your estimate here? Your seven million plus was for all classifications?

A. I didn't make that exhibit in the West Virginia Gas Company on leaseholds and I couldn't answer that question without doing some calculation.

By Commissioner Bricker:

Q. I think there was some difference, Judge, in the basis of the classification in West Virginia from the Ohio property, wasn't there?

A. Yes, sir.

Mr. Turner: I don't think so.

Mr. Huffman: They are very near the same.

Commissioner Bricker: About the same? All right.

By Commissioner Geiger:

Q. You didn't give any added value to the property by virtue of the fact that many separate gas producing areas were gathered together in one ownership?

A. No, sir, this exhibit 86 does not consider any such value.

Q. And did they consider that in the West Virginia decision, either by the court or Commission?

A. I don't think so, sir, because the value that they took was the original cost to this company of those leaseholds.

Q. Wasn't that an adjusted value found by Mr. Jergle rather than the cost method you have adopted here?

A. It was a different method than that which I have testified to here, but, as I previously stated, the value that they

found was the original cost to the United Fuel Gas Com-
4618
[fol. 1953] pany of the leaseholds which they have. It included some appreciation over the amount actually paid to the farmer.

Q. Let me ask you if this is a correct statement of it: Mr. Jergle, of Arthur Anderson & Company, who was the expert for the cities, made an examination of the books of the company?

A. Yes.

Q. Book values, the books of account of the company, and he found an adjusted value equal to what the Commission found for the leaseholds of the United, is that not correct?

A. Not values, sir. If you use original cost to the company I will agree with you.

Q. All right, original cost to the company. He adopted the book figures as the original cost to the company.

A. Wait just a second, sir. I think I will answer your question in detail.

Mr. Turner: I think you will find it in the appendix to the October 3rd pamphlet, or in the original August 16th decision as certified to the Supreme Court. You will find at the bottom of page 103, if you are looking for that——

The Witness: I am looking to see what Jergle had to say about it.

Mr. Turner: Oh, I beg your pardon. I thought you were looking for the other. I have the note here at the bottom of page 103 of the October 3rd bulletin, "Mr. John Jirgal of Arthur Anderson & Company, expert accountants engaged b- protestants, report an adjusted book figure of $7,914,-037.00 for leaseholds", and on the same page, "Mr. Carter for protestants assigned a value of $7,126,421 upon an estimate of what it would cost to acquire the acreage."

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[fol. 1954] The Witness: Jirgal says on page 2—this, I think, will probably help explain it—of his Exhibit No. 18, "We wish to state at the outset of this report that neither the classified value per books of $7,143,839.15 nor the amount of $7,914,036.87", that being the value found by the West Virginia Commission, "resulting after certain adjustments represents the cash consideration paid for the acreage rights, but, as will hereinafter appear, the greater portion of the value is represented by stock issued therefor

at the time of the acquisition of the properties in 1909 and 1910." Does that clear up your question, sir?

Commissioner Bricker: It was Mr. Turner's question.

The Witness: I was just trying——

By Commissioner Bricker:

Q. I was concerned if there had been an actual sale of this property upon a basis, say, of 25 or $50 an acre, what then would be your position as to the application of this theory of proper valuation?

A. It wouldn't affect it at all, sir, because, as I think I have previously outlined, the higher the rates for which you can sell the gas, naturally the higher that leasehold would be, the higher the value of that leasehold would be to somebody who had a market for it.

Q. I think you miss my meaning. Say there should be a sale of all this acreage by the Ohio Fuel Gas at arm's length to another company at an appreciably higher figure of acreage value, it would then appear on the books at a certain original cost to the company. Would your theory here be that they are entitled to a return upon what they paid for it, or would you again go back to the original lease purchases from the owners of the land?

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[fol. 1955] A. I would say that where one utility had bought the acreage in good faith, dealing at arm's length, that they would have a right to earn a return on it. Of course, that is what they recognized in the United Fuel Gas Case in arriving at that figure of $7,900,000.00, and we took that into consideration in preparing this exhibit, because the three leases that I outlined there were a great deal above the average rate paid to the farmer.

Q. And would your judgment in any way be modified by the original purchase price or the original lease price paid to the farmer?

A. I should think it ought to be considered, sir.

Q. If not, your theory breaks down.

A. Yes, sir. I say it should be considered.

Q. If you are to make rates on the basis of what is actually paid for a lease, then there is no limit as to the amount of consideration that must be given to the leasehold valuation in fixing the rates. That is all predicated upon the theory of our right to fix a rate of the Ohio Fuel Gas.

4646

[fol. 1956] Mr. Davies: The City now offers Exhibits 86, 87 and 88, the ones to which the witness has just testified.

Mr. Turner: Separate objections to each one.

Commissioner Geiger: The objection is overruled.

Mr. Turner: Note exceptions.

Commissioner Geiger: Do you want a motion to strike them out?

Mr. Turner: And a motion to strike out each one of them.

Commissioner Geiger: Overruled.

Mr. Turner: Note an exception.

And thereupon the paper writings above referred to were offered, introduced and admitted in evidence on behalf of the City of Columbus, Ohio, and are herewith submitted, marked respectively Exhibits Numbers 86, 87 and 88, and made a part hereof.

4664

[fol. 1957] Mr. Butler: If the Commission please, I have a paper here, which, for identification, may be marked City's Exhibit No. 89.

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[fol. 1958] And thereupon the paper writing above referred to was marked for the purposes of identification as City's Exhibit No. 89.

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[fol. 1959] Mr. Butler: Then we offer it in evidence.

Mr. Turner: We have our objection.

Commissioner Bricker: You have your objection. It may be admitted.

Mr. Turner: Note an exception and then a motion to strike.

Commissioner Bricker: Overruled.

Mr. Turner: Yes and our exception.

And thereupon the document above referred to was offered, introduced and admitted in evidence on behalf of the City of Columbus, subject to the objection and exception of the Columbus Gas & Fuel Company, and is herewith submitted, marked City's Exhibit No. 89, and made a part hereof.

[fol. 1960] Mr. Blundon testified on cross-examination as follows:

4786

[fol. 1961] Q. How many abstracters do you know in the State of Ohio?

A. I know some lawyers and attorneys; I do not know any men that make a business of abstracting alone.

Q. Did you ever buy or sell a gas lease in Ohio?

A. I have not, sir.

Q. Did you ever buy or sell a gas lease any place?

A. No, sir, not as an individual lease.

Q. Well, did you ever sell a block of them?

A. Or no combination of property, no, sir.

Commissioner Geiger: Did you ever advise anybody who bought or sold gas leases in Ohio?

The Witness: No, sir.

By Mr. Turner:

Q. Where are your working figures from which we can find how your abstracting costs shown in your Exhibit No. 86 were obtained?

A. There are no working figures behind the estimate of 4787

[fol. 1962] $10.00 a lease; the over-all amount for abstracting, of course, can be obtained from page 3 of that exhibit.

Q. That is not what I am after; I am after getting the basis of the $10.00.

A. That is just a judgment figure, the total number of leases for which the title would have to be checked. I think abstracting is probably an unfortunate word because what we really do is check the title.

Q. Is that a lawyer's work or an abstracter's work that you are contemplating there?

A. I was contemplating the passing on of the title before the drilling of a well and there was 2713 leases at $10.00 a lease; that would allow $27,000.00 for that work.

Q. How long would it take one man to make those examinations of those leases throughout the State of Ohio?

A. I have made no detailed study on that, sir; we took that estimate of $10.00 as being a fair price; it was the same price that was used in the United case, and——

Q. By whom?

A. And apparently was not contested.

Q. By whom?

A. By Carter, and apparently was not contested.

Q. And that is where you have taken it from?

A. No, sir; I considered the $10.00 as my own judgment as being a fiar price; I discussed that with Carter before it was ever put in his report.

Q. I am talking about this Ohio cost of $10.00 and I wanted to know how long it would take one man to examine these leases throughout these various counties that you have here?

A. I would have to make some figures on that, sir, before I

4788

[fol. 1963] could change that into time because he would have to consider a number of accounts and he would have a terrible amount of it and all those figures would have to be taken into consideration. If you would like to have a study made up on that and if the attorneys for the City are willing, I am ready to prepare it.

Q. I am trying to find out what is back of your $10.00. I am trying to find whether you base it upon anything other than an arbitrary figure?

A. That is a judgment figure.

Q. You do not know an abstracter in Ohio, do you?

A. No, sir.

Q. You never had any abstracting work done in Ohio?

A. No, sir.

Q. You never saw a bill for any abstracting work in Ohio, did you?

A. No, sir, but I know about what work is necessary to do to check the title on a gas lease. Oftentimes there is really no abstract to prepare. The person from whom you obtain the lease will have a full abstract of the property—just a matter of looking over it and checking it.

Q. Do you know what it costs to bring down an abstract in a county in this State—just to get the last look?

A. I am not familiar with it from experience, no, sir.

Q. Now how many geologists would be engaged in this work?

A. I have not broken down those figures, sir. We took an over-all estimate of 25 cents an acre to cover the geologist's fee; that is of course in addition to the other allowances we made for overheads.

Q. What are your allowances for overheads?

A. They are shown on page 3 of the report.

4789

[fol. 1964] Commissioner Geiger: Of what exhibit?

The Witness: It is Exhibit No. 86; and amount to approximately $147,000.00.

By Mr. Turner:

Q. Well, now, in those general overheads, I do not discover any land office or land department.

A. It covers general officers' salaries.

Q. Yes, it covers general officers' salaries and general officers' and clerks' expenses, but what about a land department; you have not allowed for that, have you?

A. Not specifically as a land department, no sir.

Q. Do you think that a company taking over this acreage that you have talked about here would be justified in doing it without a land department?

A. You have to explain to me just what you mean by a "land department" before I can answer that question.

Q. Don't you know?

A. I know what a land department as usually constituted in a company that is operating consists of but this is a different proposition.

Q. I am talking about The Ohio Fuel Gas Company; you are the man that put up this cost of reconstruction and I am wanting to know whether or not you would not have a land department?

A. Your general officers' salaries would provide for your general officers, which would include somebody in charge of the land department.

Q. And you think that $11,378.61, as set forth on page 3 of that Exhibit 86, would cover all that?

A. Would cover all your general officers, yes, sir.

Q. Including supervision of land department?

A. Supervision of the land department, yes, sir.

4790

[fol. 1965] Q. And you think that general officers' and clerks' expenses during the construction would not amount to more than $2,844.65?

A. You only have a matter of 2700 leases to handle.

Q. Only 2700?

A. Yes, sir.

Q. But you have to get them, don't you?

A. Yes, you have to get them. You have an item in there for lease agent's fee for getting them.

Q. 25 cents an acre?

A. Yes, sir.

Q. Why do you have office supplies and general officers' and clerks' expenses during construction with identical amounts?

A. Because we allow for overheads on leases the same amount that we had allowed for general overheads on the physical property, and they were percentages.

Q. What percentage is that?

A. General officers' and clerks' salary during construction, .8 of one per cent.

Q. And office supplies?

A. .2 of one per cent; general officers' and clerks' expenses, .2 of one per cent.

Q. Well, now where did you get this figure of taxes during construction, $5,689.30?

A. That is taken on the same percentages for which taxes during construction were allowed on the physical property. The percentage is .4 of one per cent.

Q. What is it based on?

A. It is based on my testimony in regard to general overheads.

Q. What is the justification for .4 of one per cent. rather than .6 of one per cent?

A. It is my estimate.

Q. But what do you base your estimate on? Do you know anything about taxes in Ohio?

A. From my examination of this case, just working in this case, what taxes have been in the past.

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[fol. 1966] Q. In what counties?

A. On an over-all basis; I did not subdivide it into counties.

Commissioner Geiger: You said the item "taxes during construction"; taxes on what during construction?

The Witness: He has been referring to taxes on those leases during construction.

Mr. Turner: Page 3.

Commissioner Geiger: The tax on the lease?

The Witness: Yes, all those items are overheads; the items given on page 3 just refer to the leases.

Commissioner Geiger: Are leaseholds taxed separate from the real estate?

The Witness: I do not know your practice in Ohio; in making up this cost of reproduction we allowed general overheads at the same rate we allowed it on physical property.

By Mr. Turner:

Q. You made them up just exactly as they were made up in the West Virginia case?

Commissioner Geiger: The taxes during construction are not intended to cover any taxes on personal property other than leaseholds?

The Witness: No, sir.

Commissioner Geiger: And if there is no leasehold tax the whole item would go out, is that correct?

The Witness: That is correct.

Mr. Turner: I am just getting at the knowledge of the witness—his qualifications.

Commissioner Geiger: All right; put another question.

Mr. Turner: Read my last question, please.

The Witness: Carter did not allow that high a percent-

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[fol. 1967] age for taxes during the gathering of the leaseholds as a total and his period of three years instead of two is here.

Q. What did Carter use for abstracting; use the figures on page 4?

A. Page B of Carter's exhibit in that case shows Abstracting 27——

Q. No, no, I want the breakdown for the $10.00 and the 25 cents, the comparable figures.

A. Carter used $10.00.

Q. And what did he use for geological survey per acre—talking about page 4 now?

A. He used 25 cents.

Q. And what did he use for lease agent's fee?

A. 20 cents.

Q. And what did he use for notarial acknowledgments?

A. He did not include those, I don't think; no, sir, he did not include those.

Commissioner Bricker: Is that the same Carter that used to be chief engineer in Indiana, in the Indianapolis Waterworks case?

Mr. Huffman: Yes, Your Honor.

Commissioner Geiger: On page 3 of your Exhibit 86 you have the total cost of $1,569,479.88?

The Witness: Yes, sir.

Commissioner Geiger: Do you mean to testify to us that in your judgment that is the value of the leaseholds that are used and useful in supplying gas in the State of Ohio?

The Witness: Well, to answer that question, sir, I would really have to make an interpretation of the law. If you will pardon me, I will say that is the value of the leaseholds based on the prices that the company was paying for them in 1927, 1928 and 1929, for the No. 1 operated acreage. I

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[fol. 1968] would not like to attempt to testify as to your law in this State as to whether 2, 3 and 4 classes are used and useful or not.

Commissioner Geiger: This is No. 1?

The Witness: Yes, sir, this is No. 1.

Commissioner Geiger: But this is the cost, or your estimate of the cost of acquiring No. 1 leasehold acreage in the State of Ohio?

The Witness: Yes, sir, on the company's experience in 1927, 1928 and 1929.

Commissioner Geiger: That is not the ultimate question; the ultimate question is, what, in your judgment, is the value of that for the purpose of furnishing gas; do you think it is valued at the cost, that that would be the value?

The Witness; That would depend on some other points, as to how other items are taken into consideration. In one way that would be the value, yes, sir.

Commissioner Geiger: This is what we are confronted with, as I understand it generally, that you have estimated the total cost of $1,569,479.00 as being the cost of acquiring leasehold acreage No. 1, and the gas company has testified that that same thing, plus 2, 3 and 4, is worth from $40,000,000.00 to $50,000,000.00?

The Witness: Yes, sir.

Commissioner Geiger: Now there is a difference of a slight amount of some $35,000,000.00 to $37,000,000.00 between your estimate and their estimate; now what are we going to use to guide us?

The Witness: You cannot compare the two, sir, because their estimate of $40,000,000.00 to $50,000,000.00 included

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[fol. 1969] 2, 3 and 4. If you segregate the No. 1 from their estimate and compare it with my estimate, I would say the difference between the two represents their idea of the appreciation in leaseholds over and above what it would actually cost them to produce those leaseholds in 1927, 1928 and 1929.

Commissioner Geiger: Have you the approximate figure of their valuation on leasehold No. 1?

A. I do not, sir; I have never seen it.

Mr. Turner: As I understand the witness, he is not attempting to testify to value, and so answered one of the Commissioners the other day?

Mr. Davies: That is right.

Mr. Turner: That is correct, isn't it?

Commissioner Geiger: What we are after is to try to get some just foundation upon which to fix a value. All you have furnished us upon page 3 of your Exhibit 86 is what it costs to acquire these leaseholds on acreage No. 1. Now what relation has that, in your judgment, to its value?

The Witness: It has a very material relation to its value.

Commissioner Geiger: Well, assuming that it costs $1,569,000.00 to acquire it, what is it worth, in your judgment?

The Witness: That is the cost to acquire it at present-day prices and should have similar weight in fixing value as the cost of reproduction of physical property.

Commissioner Geiger: Well, have you arrived at any judgment as to what the property which cost $1,569,000.00 to acquire is now worth?

The Witness: I would prefer not to testify to that, sir.

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[fol. 1970] Commissioner Geiger: Well, that is the ultimate question we have to determine.

The Witness: Well, the only thing that this presents to you is the estimate of what it did cost to reproduce similar property at present-day prices.

Commissioner Geiger: Then as I understand it you are not willing to testify in your judgment what that property so acquired at the cost which you have set out is now worth?

The Witness: No, sir, not without considering other factors than we have considered.

Commissioner Geiger: Have you the other facts to consider?

The Witness: Well, I could get them I expect, but I do not have them now.

Commissioner Geiger: All right.

Mr. Turner: The question is, of course, what it would cost to go out and get them, from his point of view.

Commissioner Geiger: Sure, but what I want to know is what effect that is on the value; is it ten per cent of the value? Is it worth $15,000,000.00?

The Witness: I do not think you could relate it in that manner. The value of leaseholds is an undetermined question.

Commissioner Geiger: But we are trying to find out how you value it?

The Witness: And I am just testifying in this exhibit, or purporting to testify as to what I think is a very material element in determining that value. I would not say that is the sole criterion to judge it by.

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[fol. 1971] Commissioner Geiger: Well, would you be able to give us your judgment as to what added value would be proper to the cost of acquiring, by reason of the fact that a large number of leaseholds are gathered in under one ownership and become a segregated property under one control?

Mr. Turner: We submit that the witness is not qualified.

Commissioner Geiger: Well, he can say so.

Mr. Turner: Well, he said he never bought or sold a lease and did not know anything about them.

Commissioner Geiger: Can you answer that?

The Witness: I cannot give it to you now, no, sir.

Commissioner Geiger: Have you ever had any experience in estimating that, what the value is as related to the cost of acquiring?

The Witness: I have had this experience in regard to leaseholds, sir; I made a rather exhaustive study of leaseholds which are bought and sold as leaseholds in West Virginia; I had my men around at all the various county seats and we took off and made a study of all the leaseholds which were bought and sold as leases in the last five years—I say the last five years—I think it was 1925 to 1930 inclusive—and went into the matter very thoroughly from that standpoint.

By Mr. Turner:

Q. Did you go into the purchase of 25,535 acres in West Virginia for the Southeastern Gas Company and the Twin States Natural Gas Company?

A. What county was that?

Q. In the general territory of the United Fuel Gas Company's holdings?

A. We have a lot of references to purchases by both of 4797

[fol. 1972] those companies but if you want to identify a particular purchase, why——

Q. Well, don't you know then—I will put it this way—don't you know that the total acreage of 25,535 acres cost $95.60 an acre?

A. I don't know that without checking it. If you will tell me the county that the lease was purchased in, I will be glad to try to identify it for you.

Q. Do you know anything about the purchase of gas rights in Logan County of 32,000 acres from the Wacotock Gas Company for the West Virginia Gas Corporation?

A. When was that purchase made, sir?

Q. I haven't the date of it here. I have the date of the other that I asked you about; the first one I asked you about was during 1929 and 1930?

A. That must have been outside of the period over which the five year period covered.

Q. These are recent sales; this would come within your time?

A. Wacotock?

Q. Yes, it was sold by the Wacotock to the West Virginia Gas Corporation?

A. Didn't that take place after 1930? It seems to me I remember it.

Q. You do remember it?

A. It seems to me I remember it, of hearing of the transaction, and it was after.

Q. All right; what was the purchase price?

A. I do not recollect; I heard of the transaction between the two companies.

Q. This data that you have there is simply the dollar consideration that appears in the lease, is it not?

A. It is all of the data that was on the lease and it sometimes involved the dollar consideration and other times it

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[fol. 1973] shows the transfer of stock and transfer of physical property along with the lease.

Q. Are you through?

Commissioner Geiger: Did any of the transactions which you examined involve the sale of a large number of leases that had been acquired by some company or some person and who had sought and obtained a considerable acreage?

The Witness: Considerable as far as acreage is concerned; it would not be classed probably as considerable as compared with a million acres, but I mean 25,000 acres; groups of that nature.

Commissioner Geiger: Now have you any transaction in mind in which 25,000 acres passed from a seller to a buyer?

The Witness: You see this data was not prepared with exactly that idea in mind. Now here is one of 13,000 acres —13,500 acres in Wayne and Mingo districts of Wayne County, lying on the Stone Coal, Silver Creek, Jenny's Creek, Bull Creek, Drag Creek and 12 Pole Creek, at a price——

Commissioner Geiger: Are you speaking of Wayne County, Ohio or Wayne County, West Virginia?

The Witness: All these figures are West Virginia; the price there was one dollar an acre.

Mr. Turner: We want to know the parties?

Commissioner Geiger: Who was the buyer and who was the seller?

The Witness: The original lessor, or the property owner, was F. D. Caldwell and George L. Estabrook. The lessee was F. H. Yates; and this was sold to John E. Mahone.

Commissioner Geiger: When?

The Witness: That was February 17th, 1926. See if I

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[fol. 1974] can find some other big acreages or parts of acreages.

Commissioner Geiger: Well, that was sold at one dollar an acre?

The Witness: Yes sir.

Commissioner Geiger: You don't know from your own experience what the character of the property was as to being gas producing?

The Witness: No, sir; I could furnish you with that information as regards its location to gas producing territory.

Commissioner Geiger: Well, do you know whether it was territory that would be ordinarily considered as leasehold No. 1?

The Witness: I could not tell you that without referring to it.

Mr. Turner: May I ask a question at that point?

Commissioner Geiger: Yes, sir.

By Mr. Turner:

Q. Isnt' that some of the property sold by Yates to the Southeastern?

A. There was no record of a sale to the Southeastern, sir. I am referring to—it was sold and on their records it appears as Yates; on the county records it appears as Yates, to the parties I have mentioned. I have lost my reference to it now.

Q. May I ask this question, how do you know that the price was one dollar an acre?

A. That was the price that was mentioned in the recorded deed.

Q. Do you think that you could go to any Court House in the State of Ohio to look at the recorded deeds for property and get the true consideration?

A. I don't know about that, sir.

Q. Well, do you think that you could do that in West 4800

[fol. 1975] Virginia?

A. If the consideration is other than nominal and considering the form of the lease upon which it is drawn and an actual consideration and the number of dollars is mentioned, I am inclined to believe a good *am*ny times that is the real consideration. I would not say that in some cases it would not be, but the examination as made was on the basis of the records as they actually existed in the Court House.

Q. Do these men that go out and pick up these leases sell them for any profit?

A. The case that I testified was a sale by a — after the leases had been acquired and was a sale from one man to another as a lease; not where the other took it from the former owner.

Q. Do you know where we can find John E. Mahone?

A. No, sir, I don't know that; I don't know anything about him; I just testify to the entry on the record.

Q. You never talked with him?

A. No, sir.

Q. Do you know Yates?

A. F. H. Yates is the man that took the lease originally.

Q. Where can we find him, do you know?

A. I do not know, sir.

Q. Who is George L. Estabrook?

A. I don't know.

Commissioner Geiger: Let me ask one question there; the information that you have and to which you have testified, as to the sale prices, was gathered from the prices that you found on the records in the county, in Wayne County, West Virginia?

The Witness: Yes, sir.

Commissioner Geiger: You don't know anything else about the price?

The Witness: No, sir.

4801

[fol. 1976] Commissioner Geiger: And it was not one dollar and other valuable considerations?

The Witness: No, sir.

The Commissioner Geiger: But it was one dollar per acre?

The Witness: No, sir, I think it was mentioned as so many dollars.

Commissioner Geiger: So many dollars?

The Witness: $13,500.00 I think is the way we have it taken off; we have it listed as $13,500.00, and not one dollar per acre.

Mr. Turner: We object to that.

Commissioner Geiger: One moment until I get that straightened out; was there the same number of dollars as there were acres?

The Witness: Yes, sir.

Mr. Turner: We should have your record here.

Commissioner Geiger: Sure, but I am trying to find out where he gets his information. Would it be a difficult matter for you to prepare a table of the largest sales, running from 10,000 acres to 25,000 acres, showing the record price

at which these acres were bought and sold and the date, that you have available?

The Witness: That would not be a large job, no, sir.

Commissioner Geiger: The last sale; it would not be a large job?

The Witness: No, sir.

Commissioner Geiger: Make a note of it.

The Witness: Well, I would not promise to get it to you before we get the other information.

4802

[fol. 1977] Commissioner Geiger: We will adjourn to 1:30 P. M.

Mr. Davies: Make it 2:00 P. M.

Commissioner Geiger: All right, we will recess until two o'clock, P. M.

Mr. Turner: Before we adjourn, may I call your attention to the fact that you did not limit him to No. 1 or any other kind of acreage?

Commissioner Geiger: Well, he should testify as to the character of the acreage if possible.

Mr. Turner: He is not capable of doing that, I think.

Mr. Huffman: We can't get anybody that is.

Mr. Turner: If you did you would get the truth.

And thereupon a recess was taken until 2:00 o'clock P. M. of same day, Wednesday, October 28th, 1931.

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[fol. 1978] Wednesday Afternoon Session, October 28th, 1931

And also—

J. Paul Blundon, resuming the stand, continued his testimony as follows:

Cross-examined by Mr. Turner:

Q. Mr. Blundon, have you any knowledge of the conditions surrounding the leasing of gas lands in Ohio as compared with West Virginia?

A. I have no knowledge of the leasing of gas lands in Ohio from direct observation.

Q. Well, what I wanted to get at at the present moment is the fact, if it be a fact, that in one state the lands are

obtainable or were obtainable until recently, at least, and still are probably obtainable in large blocks. Do you know whether they are obtainable in Ohio in large blocks?

A. I wouldn't be able to testify as to a comparison of the two on that basis.

Q. If you were to make a cost of reproduction of the Ohio leases, wouldn't it be a necessary prerequisite to know the approximate number of owners of land with whom you would have to deal?

A. The study that we have made takes that into consideration.

Q. How?

A. In that it deals with the number of owners that you had to deal with in 1927, '28 and '29.

Q. How many were there?

A. 2713.

Q. Did you get any information that you used in making up that report or exhibit off of the books of account of 4804

[fol. 1979] the Ohio Fuel Gas Company? You can answer that yes or no.

A. The information that——

Q. If is easily answered yes or no.

A. No. The information was all taken from the exhibits that I enumerated when explaining Exhibit 86.

Q. What is the fact as to whether in these exhibits that you used, Exhibits 75—was it——

A. I forgot the number of them, I don't have them here.

Mr. Turner: I will get them for you then. I thought you used it a while ago.

Mr. Davies: 71, '2 and '3, Ed.

The Witness: And then the 170's.

Mr. Turner: Just my question now.

(Question read.)

Q. (Continuing:) City's Exhibit 71, '2 and '3, there were any instances in which no consideration was shown?

A. There were several instances in which no consideration was shown.

Q. How many instances and covering how many acres?

A. I couldn't state that, sir, without going back to the actual exhibits.

Q. Well, didn't you make up any working papers that had such figures in?

A. Yes, sir.

Q. Where are they?

A. There seem to be five—I would rather, before making that answer definite, go back and check those with the books.

Q. Five instances covering how many acres?

A. The calculation that I make on the stand is 1,312 acres.

Q. Didn't you make the calculation off of the stand before for your own purposes here of making up this exhibit,

4805

[fol. 1980] or wasn't it necessary for your exhibit?

A. I don't remember the calculation as having been made off the stand. It may have been.

Q. But you don't remember of that having been used by you as a factor in arriving at your $2.05?

A. No, sir, I would like to reserve my answer to that, though, until I could check back through the full volume of working papers. It would take some time to do it now.

Q. Do you know outside of the records which you have inspected in the various court houses in West Virginia, of the price actually paid for any number one acreage?

A. Not from personal knowledge, no, sir. I have heard of various lease transactions, but I couldn't testify to it from personal knowledge, seeing the money paid or being involved in the deal.

Q. Do you still say that if a responsible firm made an offer to the Ohio Fuel Gas Company of thirty million dollars for its gas lands, that that would not affect your answer?

Mr. Davies: We object to the question?

A. I still say that for rate-making purposes that would not affect my answer.

4818

[fol. 1981] By Commissioner Geiger:

Q. I want to try to get some ground upon which we might reach some sort of a just conclusion and I am glad to hear the explanation of any engineer. We have heard the testimony on both sides. But as I now understand it, you have offered testimony to the effect that class Number 1

property operated acreage totalling 291,396 acres covered by 2,713 leases, which is about 100 or a little over 100 acres per lease, the cost of that is $1,569,479.00, and that in your judgment that cost is a correct criterion upon which we may be able to judge the value of that acreage, is that correct?

A. Inasfar as—it has the same relationship to the value of the acreage that the cost of reproduction has to the value of physical property.

Q. Well, on the theory that we are to ascertain the value of this property through the reproduction theory then you would say its present value is $1,569,000.00?

Mr. Turner: Objection.

A. Yes, sir, that is correct.

Mr. Turner: Motion to strike.

Q. The company has testified that leaseholds Number 1 as set forth in their exhibit 44 covering the same acreage, as I understand it, is $19,262,000.00, there being the slight difference between the estimates of the company's engineer and your estimates of $18,683,000.00. Now, what have you

4819

[fol. 1982] to say about the error of the company's estimate, why is that not as good or better than your estimate because, in other words—you have disclosed to us two very divergent judgments of two groups of engineers. Now, can you give us a little more light as to which one is reasonably correct, there being a difference of $19,000,000.00 between you, they estimating the value of the property at probably fifteen times as much as you do. Where is that difference?

A. I think maybe I can throw some light on it.

Q. Yes, we would be glad to have a flood of light if we can.

A. I have not examined their testimony on the value of the leaseholds, but in making the value on the reproduction basis as compared with what they may call the market value it must be considered that the value of a leasehold is entirely determined by the price for which they can sell the gas in regulated markets, and it also must be considered that a part or a large part of that value is given to the leaseholds by reason of the actual discovery of gas for

which and in which in this case and in similar rate cases, the company takes no chance whatsoever. They go out to John Brown, say, and they secure a lease. It looks like it is good territory and they pay him a dollar an acre for it. If gas is discovered on that ground, that lease, the ordinary sale of the lease immediately becomes more valuable. If gas is not discovered on that lease, they dry hole is put into the operating expenses of the company and for which the rate payer pays. In other words, the gas company takes no gamble whatsoever in the development of its leases and where the dry holes are charged to operating expenses, the gamble is all put on the consumer. Certainly,

4820

[fol. 1983] the actual cost to them for getting these leases is a measure of its fair value.

Q. Well, as I understand their statement in general that a group of acreage such as this in a market has a salable price somewhat in relation to the value that they have placed upon it, that there are creditable people who are able to pay that would be willing to pay for first, second, third class acreage which they have under their control as much as thirty million dollars. Now, your feeling is that the value of that would be dependent upon how much the regulatory body is going to permit them to charge for that gas?

A. Absolutely.

Q. That it might be worth thirty million dollars if you permitted the 75 cent rate?

A. Yes, sir.

Q. If you permitted a 25 cent rate it might not be worth so much?

A. Couldn't get anything like that for it, and it is the practice——

Q. So you would say that a person going into the market and making an offer must take a chance that after they have paid a large sum for an aggregation of producing acreage, they just take the chance ultimately that they are going to be able to get a return for their gas that would be sufficient to pay them for the valuation, the money invested?

A. That is correct. A lease, a royalty lease is a peculiar thing. It is about the only form of property or form of lease that I know of where you pay a rental on it and still

have to pay for the value of that peculiar in that respect. It is different from most anything else where you pay a rental for it, why, you don't pay a return on the value of it.

4821

[fol. 1984] Q. You mean that the rate payer pays the rental?

A. Yes, sir.

Q. And therefore the rate payer ought not to pay in addition to the rental and income to the company based upon a high price of gas?

A. Based upon a high price of gas, yes, sir. I wouldn't say it shouldn't pay on some, because it costs money to get these leases, and I think they should pay on about what it costs to get these leases.

Q. What do you say as to the*y* theory that the aggregation of a great number of separate blocks of gas producing territory in one holding would increase the value of that holding over and above what it costs to obtain it? Of course, the theory of reproduction, as I would grasp it, would be that you have got to conceive that there is no longer any leaseholds holding together or holding these lands in common ownership, they go back to the original owners of the land, and in reproduction you send out theoretically someone to acquire leases that have already been acquired and re-established the conditions as it now exists, is that——

A. No, that is not quite true. We took the leases, their expense in 1927, 1928 and '29, regardless of whether they bought the leases from the farmers or from some other people. From the prices included in there for two or three of them, three of them to be exact, it looked as though they might have been handled a time or two and that some other things might have been in there besides the actual lease itself, but we didn't have time to go into those. There were three leases that were entirely out of line with the rest of them.

Q. And you were inquired of this morning, I believe, as

4822

[fol. 1985] to your ability to get and tabulate large sales of leasehold properties running from ten thousand up to twenty-five thousand acres. You haven't prepared that.

A. No, sir, that will take some time, particularly if you want to know whether they have any producing wells on it

or not; in other words, whether it was sold as a producing property or whether it was just a bare lease with a gamble to develop it.

Q. Well, it would be acreage Number 1?

A. We would designate—I will try to designate, to the best of my ability, the claws of the acreage.

By Mr. Turner:

Q. May I proceed? Mr. Blundon, how many acres would it be necessary to lease in order to get 291,396 acres of Number 1 territory?

A. Why, your experience in drilling dry holes here in Ohio would develop that better than I could for you. That would be about your ratio.

Q. I realize the pertinency of your answer, but I am now testing your ability to present such an exhibit as 86. I claim that it is necessary to know how many acres would have to be obtained to get 291,396 acres of Number 1 before you can figure out the cost of Number 1. What have you to say to that?

A. Read that question again, please.

(Question read.)

A. Of course, the leases vary in size, but on an average the dividing the percentage of good wells into the 291,000 would give the acreage upon which dry holes would be developed. This still has no effect on the valuation, however, as your dry holes would be charged up against operating expenses and your leases abandoned and charged against depreciation reserve.

4823

[fol. 1986] Q. That should be charged against amortization reserve, shouldn't it, if they were abandoned?

A. I say, call it what you will.

Q. There are two different things here that are recognized by this Commission, I think.

A. I don't care to get into a debate. I guess they would be charged against your reserve.

Q. Well, now, the figures that you have presented here on operating expenses do not allow anything for delay rentals, do they?

A. Delay rentals are operating expenses.

Q. I am asking you whether or not you allow as operating expenses delay rentals?

A. You would have to get Mr. Allensworth to testify to that, sir.

Q. You used Mr. Allenworth's figures now and said you got a fair rate. I want to know whether or not delay rentals were taking out of the operating expenses in those figures that you used, if you know, or if you don't know, you can say that.

A. I couldn't testify to that.

Q. In other words, you took them without examination?

A. I took them as being correct.

Q. You took them without knowing whether all expenses were in?

A. I did.

Q. What I am trying to get at here is that I do not think it would be possible to go out and pick up 291,396 acres of Number 1 territory, without buying a great deal more acreage for which you would also have to pay. What is your opinion on that statement?

A. I couldn't answer as to the possibility of really reproducing 291,000 acres of Number 1 leases today, but this would answer your question directly, we will consider that there were no leases taken whatsoever, the company goes

4824

[fol. 1987] out and buys a lease for Number 1, they don't buy it for 2, 3 or 4, but they buy it because they think it is Number 1 territory, that is, territory under which there is no question about there being gas.

Q. Well, but how do you buy Number 1 territory? What is the indication of it? You are reproducing property now. You haven't got a well in there. You are going out to get this quantity of Number 1 and you haven't a single well down yet.

A. There would be other wells. They are considered on the basis that there would be other wells.

Q. Whose other wells?

A. Farm wells.

Q. That is your explanation?

A. Let me finish, please. There would be farm wells. The company would buy expecting that they were buying a Number 1 lease. They would drill it. If gas came in, it would be a Number 1 lease and so as such would be in

the 291,000 acres. If it was a dry hole, they would surrender the lease, charge the cost of it against the depreciation reserve, charge the cost of drilling the dry hole to operating expenses.

Q. And you think that if there were farm wells in the State of Ohio you could go out and for $2.05 an acre you could acquire Number 1 acreage adjacent to such developed territory?

A. You did in 1927, '28 and '29.

Q. Number 1 acreage or acreage which developed to be Number 1, which?

A. Yes, sir, you bought acreage which was Number 1.

Q. Which developed to be Number 1, isn't that right?

A. I don't quite——

Q. You haven't taken in all the acreage we bought of all

4825

[fol. 1988] kinds?

A. No, sir.

Q. And do you know that acreage that was Number 4 in 1927 was Number 1 in 1929, some of it?

A. Of course, that could be possible, but that don't apply to our figures, because we only took leases that you bought in 1927, '28 and '29, and which you drilled within that period, drilled shortly after getting the lease.

Q. But we drilled them after we got them?

A. You drilled them after you got the lease, yes, sir.

Q. They turned out to be Number 1, but who knew that they were Number 1 before the well was drilled?

A. Well, they either turned out to be Number 1 and you bought them for Number 1 or they are out of the picture.

Q. All right. Let us see. If you leased a hundred acres at a dollar an acre and drilled a well on there and it was a dry hole, you wouldn't say anything about that hundred dollars that had been paid for the hundred acres, would you?

A. Your hundred dollars would be charged to depreciation reserve and you let go the lease.

Q. Where do we get the depreciation reserve, out of anything that you have allowed here?

A. Yes, sir.

Q. What?

A. 3.6 per cent.

Q. That is how many years life to the well?

A. That is 3.6 per cent applied over all the property, would make an over-all weighted average life of the property of about—3.6 divided into a hundred, something over 25 years. Of course, that includes your short-life property and your long-life property.

Q. Now, you have made an argument here in answer to

4826

[fol. 1989] the questions propounded from the bench as well as my own questions about protecting the public. How do you think the public would be better protected in the matter of investment and return on investment, by the company buying these underlying fees and investing the money and asking for a return on them, or taking the leases, asking for the delay rentals and asking a fair price on all of its leaseholds?

A. There are about three different questions propounded in that, Mr. Turner. If you might straighten them out, I would be able to answer them one at a time. The public is not asking to be protected on your investment.

Q. I am asking how the public gets better protection, through the purchase by the company of the fee or the taking of a lease and doing it the way that the Ohio Fuel Gas Company has asked to have it treated in this case.

A. I think it probably would be on some middle ground.

Q. Where is the middle ground?

A. Well, I think, put it this way, I think they are certainly carrying a whole lot more acreage than are intended for Ohio markets.

Q. You are competent to pass on that, aren't you?

A. I don't know. You asked me the question.

Q. No, I don't ask you the question. I asked you another question. You volunteered that statement.

A. I thought I gave you an answer to your question.

(Previous questions and answers read.)

The Witness: That middle ground referred to your previous question, sir. I thought you were talking about the same subject.

Q. I was.

A. And you stated two propositions, one on one side

4827

[fol. 1990] and one on the other, and I told you I thought it would probably be on some middle ground.

Q. Yes. Well, I asked you what the middle ground was. We lawyers have a term "In nubibus" meaning "up in the clouds". Do you mean that?

A. I don't mean that.

Q. It is either a leasehold or a fee. I am giving you the alternative between a leasehold and a fee.

A. Well, then strike my answers to all those other questions, because I certainly didn't get your question, I didn't understand it at all. I mean the last two or three questions. Strike your question and start over again, if you don't mind, because I really want to answer your question.

Q. All right, leave it in the record, and tell us now whether the public would fare better by the company buying the fee instead of leasing and asking for the expenses as we have in this case.

A. I don't know.

Q. You understand that the Ohio Statute allows all freehold estates to be appraised and requires them to be appraised in such proceedings as this at their actual value in money at the time of the appraisement?

A. I am not familiar with the Ohio statutes.

Q. Well, if you assume that the Ohio statutes do so require and you are to assume that the Ohio Fuel Gas Company owned these 291,000 acres in fee, then also assume that that would be appraised as land at its present market value, do you think that the public would be better off under that sort of an arrangement than under the present arrangement whereby the company goes out and buys leaseholds and pays delays rentals and asks them to be allowed as operating expenses, buys Number 1, 2, 3 and 4 lands in

4828

[fol. 1991] order to find out what Number 1 is available?

A. I couldn't answer that question, sir, without making considerable calculation.

Mr. Turner: I will want Mr. Blundon to be getting out his data on the number of acres of each of these counties, the number of acres that are covered by his purchases in 1927, '8 and '9.

Q. Mr. Blundon, men skilled in the natural gas business have testified in this case that they would not buy the Number 1 acreage of the Ohio Fuel Gas Company without the Number 2. Have you taken into consideration any neces-

sary quantity of Number 2 lands that would have to be bought to protect the rock pressure on the Number 1?

A. I haven't made a detailed examination of your exhibits showing the relationship and location between the Number 1 and the Number 2.

Q. That hardly answers my question. Won't you read it?

(Question read.)

A. I told you I had not considered that matter or made a detailed examination of it. The statement may or may not be true.

Q. Sir?

A. I say the statement may or may not be true.

Commissioner Geiger: I would suggest the witness concentrate upon the question and answer it in the fewest number of words possible. Just say no, that that isn't so.

Q. I will ask the question this way then, how many acres would it be necessary to buy in addition to this Number 1 acreage to hold the pressure on Number 1?

4829

[fol. 1992] A. I do not know.

Q. Men skilled in the gas business have said that the Number 1 territory of the Ohio Fuel Gas Company was at the present time draining Number 2; therefore, it is the claim of the company that Number 1 is not sufficient by itself. What provision have you made for any additions to Number 1?

A. We have made no provisions for any additions to Number 1.

Mr. Turner: May I, Mr. Chairman, have the last few questions and answers read?

(Record read.)

4830

[fol. 1993] Q. You have made some observations about the protection of the public in the matter of these gas leaseholds and I want to get your judgment as to how the company would obtain what is now No. 2, 3, and 4 if it beheld that the 2, 3 and 4 were not used and useful and therefore the company should dispose of them?

A. I have not gone into that, Mr. Turner, and before I could even say that No. 2, 3 or 4 was used or useful, I would

have to know a great deal about the reserves that are in No. 1 and how much protection they really do need. It might be there is a sufficient quantity of gas in the No. 1 that you have to last for a long period of time.

Q. You understand the necessity of off-set wells, do you?

A. Yes, sir.

Q. Well, if you bought this No. 1 by itself, in order to protect that No. 1, you would have to drill a great many additional off-set wells, would you not?

A. You might or might not. That is a large subject.

Q. If you didn't own the adjoining No. 2, you certainly would have to drill off-set wells, wouldn't you?

A. It is by no means certain that the leases adjoining are No. 2. They might be No. X, that is, where they wouldn't be used at all or couldn't be considered as gas territory at all.

Q. Does No. 4 ever become No. 1?

A. Yes sir.

Q. How?

A. By drilling and finding gas there.

Q. You have assumed here that the company could go out in the state of Ohio and get 291,396 acres at $2.05 within two years, haven't you?

A. I have made an estimate of the cost of reproduction of the 291,000 acres based on the company's experience in 1927, '28, and '29.

4831

[fol. 1994] Q. That wasn't the company's experience in buying No. 1 acreage?

A. Well, we seem to differ on that then.

Q. Yes, we do.

A. That is the experience as shown by those lease books, exhibits.

Q. No. You are separating out from those purchases that were made what you call No. 1 or what the company, after it purchased it, called No. 1?

A. That is right.

Q. But you are discarding all of the No. 2, 3 and 4 that were in those same purchases?

A. Well, it would have no effect on the price per acre. The examination of the '27, '28 and '29 purchases were

merely to determine the price per acre which they were paying for No. 1.

Q. In Ashland County the company has 39,303 acres of No. 1 leaseholds. How many acres did you consider in your reproduction to get your reproduction base for that county?

A. We considered, took an over-all average. We didn't build it up by counties.

Q. I just want to know how many acres were leased in Ashland County No. 1, during the years 1927, '8 and '9?

A. I would have to look back through the work sheets to tell you.

Q. Well, we will have to have that produced for each county, if you please.

A. All right.

5842

[fol. 1995] Q. What was you- city exhibit that had your reproduction of leasehold?

A. 86, I expect.

Q. Now, in preparing your exhibit 115, Page 24 and page 25, you did not go to the books of the Ohio Fuel Company

5843

[fol. 1996] for any data, did you, the books of account?

A. Not for the data in connection with Pages 24 and 25.

Q. Especially, consideration?

A. That is correct.

Q. Now, you have shown at page 2 of Exhibit 86, that the Ohio Fuel Gas Company had 39,303 acres in Ashland County?

A. That is correct.

Q. At Page 24, you have shown five purchases in Ashland County, amounting to 300 acres, have you not?

A. Just a second. That is correct.

Q. Less than one per cent. of the acreage, is it not?

A. Less than one per cent. of the acreage in Ashland County.

Q. Now, in Athens County, Page 2 of your Exhibit 86, shows that the Ohio Fuel Company had 20,342 acres of Number 1?

A. Yes, sir.

Q. On Page 24 of Exhibit 115, you show the acquisition of how many acres of Number 1?

A. 4426.

Q. 4426?

A. Yes, sir. Wait a minute. I have made an error.

Q. I think you have made an error there on your machine.

A. It is not the machine. It is me. It is 4759.

Q. Now, in Belmont County, you show on page 2, 534 acres. How many sales in Belmont County do you show on Page 24? Any?

A. No, sir.

Q. In Coshocton County, on Page 2 of Exhibit 86, you show 3,598 acres?

A. That is correct.

Q. Of Number 1?

A. Yes.

Q. On Page 24 of Exhibit 115 how many acres do you show of Number 1?

A. 88 acres.

Q. That is what per cent. of 3598?

A. 2.44.

5844

[fol. 1997] Q. On Page 2 of Exhibit 86, you show 1,350 acres of No. 1, in Cuyahoga County. On Page 24 or 25, either one, of Exhibit 115, how many acres do you show in Cuyahoga County purchased in these years you were talking about there?

A. None.

Q. On Page 2 of Exhibit 86 you show 8,240 acres of Number 1 in Fairfield County?

A. Yes, sir.

Q. On Page 24, Exhibit 115, how many do you show in Fairfield County?

A. 259.

Q. Gallia County, Page 2 of 86, you show 1,305 acres. How many do you show on Page 24 of 115?

A. 86.

Q. Guernsey County, you show on Page 2 of 86, 11,855. How many do you show on Pages 24 and 25 of your Exhibit 115?

A. We show 567.

Q. How?

A. 567 of leaseholds.

Mr. Seyffert: 667.

The Witness: There is a hundred of that owned in fee.

Q. And a hundred in fee?

A. Yes.

Q. Hardin County. Do you show anything in Hardin County at all on Pages 24 and 25 of Exhibit 115?

A. No, sir.

Q. On Page 2 of Exhibit 86, you show 16,025 of Number 1 in Hocking County. On Pages 24 and 25 of 115 how many acres do you show in Hocking County?

A. It shows an acreage of No. 1 in Hocking County—it shows 9,518 acres of No. 4.

Q. No Number 1?

A. No Number 1.

Q. How many Number 1 in Holmes did it show in Exhibit 115?

A. There don't seem to be any in Holmes.

Q. On Exhibit 86 there is 9,354 acres of Number 1 is [fol. 1998] there not?

5845

A. That is correct.

Q. Now, on Page 2 of Number 86, there are 17,494 acres of No. 1 in Jackson?

A. Yes, sir.

Q. How many purchases do you show of No. 1 in Jackson?

A. 235.

Q. That is what per cent?

A. 1.34.

Q. In Knox County on Page 2 of your Exhibit 86, you show 18,946 acres of Number 1, while on Page 25, of Exhibit 115, you show 88 acres; is that not correct?

A. Yes, sir.

Q. What per cent is that?

A. .36 of one per cent.

Q. In Lawrence County on Exhibit No. 2, page 2, I should say, of Exhibit 86, you show your acreage, but I can not find any in Exhibit 115; is that correct?

A. That is correct.

Q. On Page 2 of Exhibit 86; 27,111 acres of Number 1, and I can't find any in Licking County on 115. Is that correct?

A. That is correct.

Q. On Page 2 of 86 you show 7,035 Number 1 in Lorain, and you show 385 acres on Page 25 of 115, do you not?

A. That is correct.

Q. Now, Medina County, you show 23,436 acres on Page 2 of Exhibit 86, and only 92 acres in Exhibit Number 115?

A. That is correct.

Q. What percentage is that?

A. .39 of one per cent.

Q. In Meigs, in Exhibit 86, there is 1,631 acres of No. 1 and on Page 25 of Exhibit 115 you have 15 acres.

—. ——.

Q. That is less than one per cent.

A. That is less than one per cent.

Q. In Exhibit 86, you have 1,446 of No. 1 in Monroe, 5846

[fol. 1999] and 76 acres in 115. That is correct, isn't it?

A. Yes.

Q. That is about what? One-half of one per cent?

A. No, it is 5 per cent.

Q. 5 per cent, yes. I put my decimal in my head in the wrong place there. Noble County, you have in Exhibit 86, 4,075 acres, and nothing on Exhibit 115. That is correct, isn't it?

A. Noble County? You skipped one.

Q. I didn't intentionally. Yes, I guess I skipped two.

Mr. Davies: You skipped two.

Q. Morgan County, 4,823 on Page 2 of 86, and 108 in 115; that is correct, isn't it?

A. Yes, sir.

Commissioner Geiger: Couldn't you at that point ask the broad question that the number of acres he shows in 1 has no reference to the number of acres in the other and ask him why his record show that. But if you want to repeat all the way down the line, very well. It seems to me you have shown enough to show that the two acres do not correspond.

Mr. Turner: I have only a few more.

Commissioner Geiger: All right.

Q. Muskingum County, 883 in 86 and in 115, 37?

A. Yes, sir.

Q. And Noble County you show 4,075 in 86 and nothing in 115?

A. That is correct.

Q. Ottawa County, 1,350 in 86 and 40 in 115?

A. That is right.

Q. Perry County you show 4,106 in 86 and 164 in 115?

A. That is right.

Q. Richland County you show 7,727 acres in 86 and noth-
[fol. 2000] ing in 115.

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A. That is right.

Q. Tuscarawas, you show 807 acres of No. 1 in 86 and nothing in 115?

A. That is right.

Q. Vinton you show 25,572 acres of No. 1 in 86 and nothing in 115?

A. That is right.

Q. Washington County you show 8,414 acres in 86 of No. 1 and 78 acres in 115?

A. That is right.

Q. In Wayne County you show 22,532 acres of No. 1 in 86 and 113 in 115?

A. That is right.

Q. And those are the bases from which you made up your reproduction cost of the No. 1 acreage of the Ohio Fuel Gas Company?

A. Exhibit No. 115 shows the acres of No. 1 acreage that the Ohio Fuel Gas Company purchased in the years 1927, 1928 and 1929 and the average price paid for those years, the basis for the average price used in Exhibit No. 186.

Q. How do you know what was paid for that?

A. As indicated by the consideration column in Exhibits——

Q. City Exhibits 76?

A. City Exhibits 71, 72 and 73.

Q. And no other source of information?

A. And no other source of information.

[fol. 2001] Mr. Blundon testified on direct examination as follows:

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[fol. 2002] Q. At page 4831 of the record, Mr. Turner asked you to prepare a statement showing any purchases of leaseholds, classes 2, 3 and 4, which were included in the acreage on which you based your city Exhibit No. 86. Have you prepared such a statement?

A. I have.

Q. Does that appear in Exhibit No. 115?

A. Yes, sir, at pages 24 and 25.

Q. Please explain your study on pages 24 and 25.

A. In column 1, the first column, is shown the grantor of the lease; column 2, the lease file number; column 3, the date of conveyance; column 4, the form of grant; column 5, the consideration; column 6, the county; column 7, the township; columns 8, 9, 10 and 11, the acreage in the conveyance in the various classes.

Mr. Turner: Was it bought that way?

The Witness: I think it was, sir. You will find that the lease file number is the same.

Mr. Turner: Bought as class 1, 2, 3 and 4?

The Witness: Oh, I don't mean that, no, I mean that is the way it is classified. For instance, I can make that a little more plain by referring to the purchase from the

5791

[fol. 2003] George M. Jones Company. The exhibits show that under file No. 77,346 there was classified 136 acres of class Number 1, 107 acres of class Number 2, 315 acres of class Number 3, and 422 acres of class Number 4. Now, the only consideration shown opposite that file number is $450.99 and that consideration is entered against the class one acreage and no consideration entered against the classes 2, 3, and 4 acres.

Mr. Turner: That is, you entered it?

The Witness: Not entered in the lease book showing the consideration.

Mr. Turner: But you entered it in your exhibit here against the Number 1?

Mr. Davies: No.

The Witness: It was shown in that exhibit, the company's exhibit, as being entered against——

Mr. Turner: What company exhibit?

The Witness: It is city exhibit, I guess, the three lease exhibits, I forget the number, which showed the consideration.

Mr. Turner: Well, we quarrel about that statement as to whether it showed the consideration.

Q. It is what appeared in the consideration column, Mr. Blundon?

A. That is correct.

Q. As against acreage Number 1?
A. Yes, sir.

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[fol. 2004] Q. Just before the recess, Mr. Blundon, you were asked to explain pages 24 and 25 of City Exhibit No. 115, concerning leaseholds classes 2, 3 and 4. I think you were only partially through that explanation. Do you know where you left off?

A. Yes, sir.

Q. I wish you would then proceed with that explanation of those two pages.

A. Referring again to pages 24 and 25 of City Exhibit 115, the amount added in the consideration column, which was added in the consideration column, opposite the class one acreage in the company's leasehold exhibits is the total amount that was paid for all classes of acreage involved in the transaction covered by that file number.

Mr. Turner: You said the company's exhibit. City's exhibit.

The Witness: City's Exhibit. I do not have the number.

Q. It is city's Exhibit?

A. They are the exhibits on the leaseholds that contain the consideration column filled in.

Mr. Turner: We don't want anybody to think we made as great mistakes as are in that.

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[fol. 2005] Mr. Butler: Although it was furnished by you.

Mr. Turner: No, no, no, sir.

Q. Proceed, Mr. Blundon.

A. That is the end of that answer.

Mr. Davies: The exhibit numbers that the witness is referring to are City's Exhibits 71, 72 and 73.

Q. Mr. Blundon, you were asked to prepare the number of acres of class Number one acreage in each county that you used in preparing your Exhibit Number 86. Do the sheets just referred to, being pages 24 and 25 of City's Exhibit No. 115, show this information?

A. They do.

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[fol. 2006] And also—

JAMES BUTLER, called as a witness on behalf of the City of Columbus, being first duly sworn, testified as follows:

The Witness: My name is James M. Butler, and I am a resident of Columbus, and I am of the Attorneys of record in this case.

During the last few days——

Mr. Turner: Won't you ask yourself questions so we might preserve our record, or let one of your co-counsel sitting here ask you the questions?

The Witness: They don't know, Mr. Turner, because I have gathered these records and I am decently serious about it. If you would prefer it that way, this can go over until Monday. It will not take but a few minutes.

Mr. Turner: We will do anything rather than have any more continuances.

Commissioner Bricker: I think it would be better just to let Mr. Butler make his statements.

Mr. Turner: So that we can preserve any objections and exceptions we may have——

Commissioner Bricker: You can make a general objection then at the end or at any time you want to break in.

Mr. Turner: I do not want to break in, if it can be understood.

The Witness: I shall be very glad, General Turner, to have you break in.

As I was about to say, during the last few busy days I

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[fol. 2007] have personally examined the annual reports made to the Utilities Commission by The Logan Natural Gas & Fuel Company, The Logan Gas Company, The Ohio Fuel Supply Company and The Ohio Fuel Gas Company. Each and every one of the reports which I examined and concerning which I shall testify are on file on the next floor above with Mr. Hanna and they are now bound up into volumes, but they are the original reports.

I have collated the figures and have handed those figures to opposing counsel, not that I want to make an exhibit out of them, but that it will aid them in checking.

I may say to the Commission and counsel that these have been prepared hurriedly they will be rechecked by the

City's experts and if there are mistakes—and doubtless there will be mistakes in the hurried copying—they will be corrected, and they will give Mr. Turner and Mr. Calland a chance to investigate likewise.

The figures which I am about to give are figures which I took off these original reports in file, as I have indicated.

Mr. Turner: Mr. Butler said I might break in and I will break in this once, and that is all.

The Witness: Yes, surely, go ahead, Mr. Turner.

Mr. Turner: Looking this over it seems to me to be nothing other than a lawyer's argument in a case put in here as evidence. If the records of this commission are material in a 614-44 case, if they are material, then they can put in in the ordinary way and the argument made in brief at the proper time. All this seeks to do is to put in a brief here at this time.

The Witness: Well, Mr. Turner, I do not think you quite

4561

[fol. 2008] understand what I have in mind. What I handed you is an aid to you. What I shall do is to testify to figures that I have made from the reports.

Mr. Turner: Yes, but those figures, if the Commission may take judicial notice of them or quasi judicial notice of them, they do not require to be put in here; they can be put in your brief.

Commissioner Bricker: This might be something in the nature of a collation of some portions of this report that might be of more pertinency than others and might be helpful, and for that reason they may be admitted.

Mr. Turner: That is a brief; that is what they are—briefs.

Commissioner Bricker: Possibly so.

Mr. Turner: Not his testimony.

Commissioner Bricker: We will give you the privilege of answering it.

Mr. Turner: We do not want to encumber the record with it and if we go and waive our rights in the matter we are prejudicing our client.

The Witness: Well, these will prejudice your client? No doubt about that.

Mr. Turner: You would not get them up unless they did.

The Witness: I did not get them up: I copied them.

Mr. Turner: It looks like they are gotten up here.

Commissioner Bricker: You may go ahead and introduce them, and save your exceptions.

Mr. Turner: All right.

The Witness: In bound volume 1 of 1916 is the report 4562
[fol. 2009] of The Logan Natural Gas & Fuel Company. The report shows it — controlled by Union Natural Gas Corporation.

On Page 24, Item 1, is this:

Land devoted to natural gas operations, total cost to December 1, 1915	$2,410,726.69
Additions during the year	12,624.70
Total cost on December 31, 1916	2,423,351.39
Well royalties	95,864.84
Lease rentals	214,087.51

In Bound Volume 2 of the 1917 reports is the report of The Logan Natural Gas & Fuel Company. The report shows that it is controlled by Union Natural Gas Corporation.

On Page 24, Item 1, under the caption "Land devoted to natural gas operations," appear the following:

Total cost to December 31, 1916	$2,423,351.39
Additions during the year	54,198.56
Total cost on December 31, 1917	2,477,549.95
Well royalties	119,972.64
Lease rentals	280,121.53
Total capital account	14,313,606.86
Added during year	624,722.59
Total at end of year	14,938,329.45

In Bound Volume 3 of the 1918, reports is the report of The Logan Natural Gas & Fuel Company, showing controlled by Union Natural Gas Corporation, and on page 25, Item 1, under the caption "Land devoted to natural gas operations" appear the following:

Total cost to December 31, 1917	2,453,167.24
Additions during year	359.14

4563

[fol. 2010] Total cost on December 31, 1918	$2,453,526.38
Royalties	100,363.81
Lease rentals	331,349.86

On page 54 this appears "Number of acres under lease in Ohio on December 31, 1918, 644,456 acres."

Capital account, total cost to December 31, 1917	22,481,400.51
Additions	692,256.61
Deductions	219,508.29
Showing total capital account December 31, 1918	22,954,148.83

Now, on page 25 of that report, there is an explanation showing how the capital account jumped—well, that is not an elegant word——

Mr. Turner: Nice for argument though.

The Witness: Well, I am trying to be decent in my statement, Mr. Turner, so I withdrew it for that reason—was increased from $14,938,329.45 to $22,954,148.83, it was due to a reappraisment of the property that had been made but which did not as to that amount include anything for leases.

Bound Volume 1, 1919, contained the report of The Logan Natural Gas & Fuel Company, controlled by Union Natural Gas Corporation, and under the caption "Land devoted to natural gas operations" appear the following figures:

Total cost to December 31, 1918	$2,453,526.38
Additions during year	3,748,036.48
Total cost to December 31, 1919	6,201,662.86

I searched that report to find an explanation of that large increase of $3,748,036.48——

Mr. Turner: You have it marked "Additions" here.

The Witness (continuing): For that year, but I found

4564

[fol. 2011] no explanation. Yes, I have it marked "additions," Mr. Turner, but that is unfair to leave it in that way; that is, it is unfair to the Company. Mr. Newman's reports and his testimony introduced show that about 1917 Mr. Samuel Wyer reappraised the leaseholds——

Mr. Turner: Reappraised them, or appraised them the first time?

The Witness: I do not care which way it is put.

Mr. Turner: I don't think—I may be mistaken Mr. Butler—I don't think, so far as my information goes, that there was any appraisal preceding——

The Witness: As my information now stands, I would be bound to agree with you although there seems to have been a reappraisal away back years and years before.

Mr. Turner: Not of the lands, not of gas lands?

The Witness: Well, I thought so, but, as I say, I don't want you to be prejudiced by that observation and so for the moment I shall accept the statement that he appraised them, and as I understand, he added $3,700,000.00, substantially, and that was carried along until 1919, when it was put on the books, and although the report does not explain it, I assume that the company did make complete explanation to the Commission somewhere and in some manner.

Mr. Turner: May I interrupt you there? You are familiar with the requirements prescribed in the Uniform Classification of accounts of this Commission, which requires property obtained prior to January 1st, 1921, to be appraised?

The Witness: No, Mr. Turner; what I don't know about Uniform Accounting and all that, that would necessarily fill

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[fol. 2012] a volume.

Mr. Turner: If we could take a moment to get a classification of accounts here——

The Witness: They did reappraise and altogether added about $10,000,000.00 to their book values through reappraisements, both of leaseholds and of other properties, added in 1918 and in 1919.

Mr. Turner: You are not familiar then with the orders of this Commission in respect of appraisal of property acquired prior to January 1, 1921?

The Witness: I think, Mr. Turner, to be honest, I should say, not sufficiently familiar to give any technical discussion of that.

Mr. Turner: All right.

The Witness: Was there something, Mr. Turner?

Mr. Turner: Well, I wanted to call attention——

Commissioner Bricker: Well, we have that order in mind.

Mr. Turner: The Commission has that order in mind and the record will show that there is such a requirement in the Uniform Classification.

The Witness: The reason I brought this out, Mr. Turner, I assumed that the company had not tried, to use the language of the day, "to put it over" on anybody, because the other records that I introduced show clearly how it came about.

Commissioner Bricker: And it may have been, for all you know, in conformity with this order and prompted by that order?

The Witness: Oh, yes, yes.

4566

[fol. 2013] Proceeding with this report, the

Total Capital account, December 31, 1919 $26,876,368.62;
Well rentals for that year ..... 335,031.18—
that should be lease rentals——

Mr. Turner: Mr. Seyffert thinks that you have reversed those two items, Mr. Butler. It is his guess that you reversed them. You probably have the right figures under the wrong titles there.

The Witness: No, I have it right, lease rentals and royalties, don't you see?

Mr. Turner: Yes, but royalties probably is the figure given to well rentals and the figure given to royalties should be——

The Witness: Oh, no.

Mr. Huffman: They run the opposite way in the other reports; the royalties have been smaller than the lease rentals.

The Witness: $235,031.18
Royalties for the year, $98,660.00.

This report also contains this: "Number of acres under lease on December 31, 1919, 610,200 acres."

I will now go to Bound Volume 2 of 1920, and to the report of "Logan Natural Gas & Fuel Company, controlled by Union Natural Gas Corporation." Under "Land devoted to natural gas operations" are found these figures:

Total cost to December 31, 1919	$6,201,562.86
Additions during year	38,336.64
Total cost December 31, 1920	6,239,899.50

Page 54 shows: "Number of acres under lease in Ohio

4567

[fol. 2014] on December 31, 1920, 645,908 acres."

Leasehold rentals for year	$345,534.76
Gas royalties or well rentals	109,411.78

Bound volume 1, 1921, contains the original report of "Logan Natural Gas & Fuel Company, controlled by Union Natural Gas Corporation." Account No. 205, "Leaseholds" shows the following:

Total cost to December 31, 1920	$6,189,860.22
Additions during year	26,160.14
Total Cost to December 31, 1921	6,216,020.36
Gas well royalties for year	116,514.25
Rental on leases	363,150.73

"Number of acres under lease in Ohio on December 31, 1921, 653,310."

Bound Volume 1 of 1922 contains the original report of "Logan Natural Gas & Fuel Company, controlled by Union Natural Gas Corporation;" recites that it was organized on June 27, 1894. The uniform account 205, "Leaseholds," shows the following:

Total cost to December 31, 1921	$6,216,020.36
Additions during year	23,139.36
Total cost to December 31, 1922	6,239,159.72
Gas well royalties for year	92,586.21
Rental on operated leases	413,839.84

The number of acres under lease in Ohio that year was not given; that was not filled out—no doubt by more oversight.

This is the year in which the eight companies were consolidated as shown by Applications Nos. 2708 and 2709, the 4568

[fol. 2015] papers concerning which have been discussed and introduced. The consolidation went into the name of the Buckeye and then the Buckeye changed its name to The Logan Gas Company, and thereafter, until The Logan Gas property was taken over by Ohio Fuel Gas Company, the reports are in the name of The Logan Gas Company.

Bound Volume 1 of 1922——

Mr. Turner: Before you get away from that Volume 1, you have got two Volume 1's, one item 7 and one item 8; are they part of the same volume? Volume 1, 1922, and 8 is volume 1, 1922?

Mr. Huffman: Yes, they do appear in the same reports. Logan made a report after they made the consolidation.

Mr. Turner: Then above that you have "Colonial Trust Company, Trustee;" was that a mortgage or something that was given on gas lands?

The Witness: I assume—there isn't much information—I assume that that was merely to protect a mortgage in some way or the stock. I simply put it there, Mr. Turner, so that it might be a key to something that you would want to investigate.

Mr. Turner: Thank you.

The Witness: Knowing your desire to get the facts.

Mr. Turner: Knowing your fairness, I would expect that.

The Witness: Now, Volume 1, 1922, also shows a report of Logan Gas Company, controlled by Union Natural Gas Corporation. You understand that this consolidation took place right at the end of the year and it made a report.

4569

[fol. 2016] Now, under Account No. 205, "Leaseholds," it simply reported $6,239,159.72, showing that its leaseholds were exactly those that were taken over from Logan Natural Gas & Fuel Company. Indeed, you will find, Mr. Turner, in Mr. Newman's testimony, that in that consolidation the only leaseholds that came to The Logan Gas Company were the leaseholds of the old Logan Natural Gas & Fuel Company.

Bound Volume 1, 1925, contains the report of The Logan Gas Company, controlled by Union Natural Gas Corporation.

The Uniform Account No. 205, "Leaseholds," shows:

Total cost to December 31, 1922	$6,239,159.72
Additions during year	39,859.90
Total cost to December 31, 1923	6,279,019.62
Gas well royalties for the year	123,074.35
Rental on leases during year	485,117.04

The acres under lease were not filled out in the report.

Mr. Turner: Mr Butler, you have your working papers, I assume?

The Witness: I have given you my working papers, sir, in advance.

Mr. Turner: We want your working papers comparable to those Mr. Lerch and Mr. Antonelli and Mr. Welker and others.

Commissioner Bricker: Shall we adjourn for lunch now?

The Witness: I can finish this in fifteen minutes.

Mr. Turner: Oh, let us adjourn now because I want to cross-examine during the afternoon.

Commissioner Bricker: Going to be pretty elaborate, is it?

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[fol. 2017] Mr. Turner: Oh, yes. That is the reason I wanted him to bring over his working papers.

* * * * * * *

4571

[fol. 2018] The Witness: I had completed my statement of figures shown by the Logan Gas Company report of 1923.

Mr. Turner: You are referring to Butler Exhibit now?

The Witness: I am refreshing the record for the sake of the reporter.

Now, Volume, bound volume 1, 1924, contains the report of the Logan Gas Company, controlled by Union Natural Gas Corporation.

The account Number 205, leaseholds, shows a total cost to December 31st, 1923, $6,279,019.62; additions during the year $25,754.08; deductions during year, $300.00; total cost, December 31, 1924, $6,304,473.70.

The gas well royalties for the year, $154,944.52; the rental on leases for the year, $532,653.64.

Then, quoting from the report, "Acres under lease in Ohio at close of year, 935,765 acres."

Bound Volume 1, year 1925, contains the report of the Logan Gas Company, controlled by Ohio Fuel Corporation.

Account No. 205, leaseholds, shows total cost to December 31st, 1924, $6,304,473.70; additions during year, $14,297.97 total cost to December 31st, 1925, $6,318,771.67.

4572

[fol. 2019] Gas well royalties for year, $162,286.83; rental on leases for year, $517,587.86.

This, I quote from the report. "Number of acres under lease in Ohio at close of year, 866,941 acres."

Bound Volume 1, 1926, contains the report of the Logan Gas Company, now controlled by Columbia Gas & Electric Corporation.

Account No. 205, leaseholds, shows the following: Total cost to December 31, 1925, $6,318,771.67, additions during year, $12,466.41; total cost to December 31, 1926, $6,331,240.08.

Gas well royalties for the year, $173,628.37; rental on unoperated leases for year, $454,652.52.

This I quote from the report. "Number of acres under lease in Ohio at end of year, 834,673 acres."

Bound Volume 1 for 1927 contains the report of the Logan Gas Company, controlled by Columbia Gas & Electric Corporation.

The account No. 205, Leaseholds, shows the following: Total cost to December 31, 1926, $6,331,240.08; additions during year $10,930.79; total cost to December 31st, 1927, $6,342,170.87.

Gas well royalties for the year, $192,408.01; rental on unoperated leases for year $478,406.81.

4573

[fol. 2020] The number of acres under lease in Ohio is not given for that year. The question remained unanswered. Mere oversight, no doubt.

Mr. Turner: Probably hiding some of it under the barn.

The Witness: Oh, I think not. You always were too harsh in your view of your clients.

Bound volume 1, 1928, contains the report of the Logan Gas Company, controlled by Columbia Gas & Electric Corporation.

Account No. 205, leaseholds, shows total cost to December 31st, 1927, $6,342,170.87; additions during year, $4,567.50; total cost to December 31st, 1928, $6,346,738.37.

Gas well royalties for year, $190,397.88; rental on unoperated leases, $398,119.35.

Again, the number of acres under lease in Ohio at the close of the year was not given.

Bound volume 1, 1929, contains the report of the Logan Gas Company, controlled by Columbia Gas & Electric Corporation.

This is the year, as disclosed, when the Logan Gas Company was taken over by the Ohio Fuel Gas Company, and,

since it was taken over as of June 1st, this report is for five months of the year.

Account No. 205, leaseholds, shows total cost to December 31st, 1928, $6,346,738.37; additions during year, which I assume means five months, $240.68; total when company was sold to Ohio Fuel Gas Company, $6,346,979.05.

Gas well royalties for that period, $75,647.43; rental on unoperated leases for that period, $151,241.74.

The number of acres under lease in Ohio not given.

It is revealed in cause No. 5513, by order of the Public

4574

[fol. 2021] Utilities Commission, the Logan Gas Company was purchased by the Ohio Fuel Gas Company for 441,252 shares of the common stock of the Ohio Fuel Gas Company, of the par value of $50.00 each.

I now refer to the Ohio Fuel Supply Company.

Bound volume for 1920 contains the report, and all that I have available for this afternoon is the amount of the lease rentals, $449,929.33. That means that I did not have time to get the rest.

Bound volume 2, 1921, contains Ohio Fuel Supply Company report.

Page 41, number of acres under lease in Ohio on December 31st, 1921, 1,156,503 acres.

Account No. 205, leaseholds, reveals this: total cost to December 31, 1920, $554,775.62; additions during year, $132,053.72; deductions during the year, $125,738.24; total cost to December 31st, 1929, $561,093.14.

Mr. Turner: Twenty when?

The Witness: To December 31st, 1921.

Accounts 359 and 360 show for the year gas well royalties paid $273,408.74; rental on unoperated leases paid, $564,624.48.

Bound volume 2, 1922, contains the report of the Ohio Fuel Supply Company.

There is a letter attached to that report from Eagleson & Laylin, Columbus, Ohio, reciting the fact that, by order of the Commission, dated December 30th, 1922, the Ohio Fuel Supply Company sold everything to the Ohio Fuel Gas Company and that, therefore, it is out of the utility business and is not obliged to report. I mean as a matter of law. However, it did file a report.

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[fol. 2022] Account No. 205, leaseholds, shows the following: total cost to December 31, 1921, $561,093.14; additions during the year $173,392.36; deductions during the year $82,406.71; total cost to December 31, 1922, $652,078.79.

I quote this from the report; number of acres under lease December 31st, 1922, 1,356,187.

Gas well royalties, paid during year, $324,903.23; rental on unoperated leases paid during year, $630,768.94.

Bound volume 2, 1923, reports contains report of Ohio Fuel Gas Company, controlled by Ohio Fuel Supply Company.

This report recites the date of the organization of Ohio Fuel Gas Company as December 15th, 1922, and, as was revealed in the report of Ohio Supply Company, it took over the property of the Ohio Fuel Supply Company.

Mr. Turner: You don't mean just that? You used that word "revealed" in the report of the Ohio Fuel Supply Company? Did you mean that? I want to get your records straight for you if I can.

The Witness: What do you refer to?

Mr. Turner: You just called the name wrong, I think Jim. It is the Ohio Fuel Gas Company I think you wanted to say after the word "revealed."

(Answer read.)

The Witness: That is true. It is the prior report.

Mr. Turner: Oh, pardon me.

The Witness: That is all right. That is one of the matters that I will be obliged to ask Mr. Seyffert to work out. You see I am not an accountant.

4576

[fol. 2023] Mr. Turner: Then I move to strike out all this accounting data.

The Witness: This is not accounting data. These are just figures I copied, but as far as I could understand, there was a suspense account made out of this purchase price, and then it was distributed through the years.

For example, account No. 205, leaseholds, shows the following: additions for the year $97,813.43; deductions for the year $20,671.10; total on December 31st, 1923, $77,142.33.

Of course, it had taken over leases, the book values of which ran into the millions, and evidently it was being car-

ried for the time in a suspence account.

This reveals also gas well royalties paid for the year $356,394.14; rental on unoperated leases paid during the year, $434,465.12.

Bound volume 2, 1924, contains the report of Ohio Fuel Gas Company, controlled by Ohio Fuel Supply Company.

This is quoted from the report: "Number of acres under lease in Ohio at close of year, 710,512."

Account No. 205, Leaseholds, shows this; total to December 31st, 1923, $77,142,33; additions during year, $58,545.78; deductions during year, $21,023.13; total to December 31, 1924, $114,664.98.

Evidently there had been no distribution yet of the leasehold values of the old Ohio Fuel Supply Company, because the report of that year carried a plant purchased account of $22,505,495.30.

The report shows gas well royalties paid for that year, $374,131.12; rentals on unoperated leased paid that year, $437,647.90.

[fol. 2024] Bound volume 2, 1925, contains the report of Ohio Fuel Gas Company, controlled by Ohio Fuel Supply Company.

Account No. 205, leaseholds, shows total, December 31, 1924, $114,664.98; deductions during year, $9,568.33; total on December 31st, 1925, $105,096.75.

Obviously there has yet been no distribution of the leasehold account from the old Ohio Fuel Supply, leasehold value account, because the plant purchased account was still carried, and that year was $21,224,259.83.

This report shows gas well royalties paid that year, $355,275.91; rental on unoperated leases paid $408,724.99.

Mr. Davies: Did you intend to omit the number of acres for that year?

The Witness: I did not. Thank you. I get this from the report. Number of acres under lease in Ohio at end of year, 701,289.

Bound volume 2, 1926, of reports contains the report of the Ohio Fuel Gas Company, controlled by Ohio Fuel Supply Company.

Account No. 205, leaseholds, shows, total December 31, 1925, $105,096.75; additions during the year, $377,719.72; total on December 31st, 1926, $482,816.47.

I cannot tell; I am not able to understand bookkeeping; apparently the additions, or a part of them, were taken from the old Ohio Fuel Supply account, because that plant purchased account, which the previous year had been in excess of 21 millions, now appears in red as $1,714,439.96. But that is a matter that I shall ask Mr. Seyffert to explain. He can do it with ease.

4578

[fol. 2025] I quote from the report; "Number of acres under lease in Ohio at close of the year, 802,648."

The report shows gas well royalties paid that year, $377,387.50; rentals on unoperated leases paid, $426,491.65.

Bound volume 2 of the 1927 report contains the report of Ohio Fuel Gas Company, controlled by Columbia Gas & Electric Corporation.

Account No. 205, leaseholds, shows total to December 31, 1926, $482,816.47; additions during year, $656,892.06; total on December 31st, 1927, $1,139,708.53.

With my limited ability I could not determine whether the additions to leasehold account that year were because of new acreages or whether it was still taken over from the old account, because the number of acres leased in Ohio at the end of the year was not given in this report.

The report further shows gas well royalties paid for the year, $256,443.99; rentals on unoperated leases paid, $549,124.43.

Bound volume 2 for 1928 contains report of Ohio Fuel Gas Company, controlled by Columbia Gas & Electric Corporation.

Account No. 205, leaseholds, shows, total on December 31st, 1927, $1,139,708.53; additions during the year, $1,034,496.87; total on December 31st, 1928, $2,174,205.40.

Again I could not find the number of acres under lease at the end of the year, but, judging from the total that we find in '29 and '30, it was probably fair to assume, until it is further explained, that that was new acreage.

The report further shows gas well royalties paid that

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[fol. 2026] year, $319,123.96; rental on unoperated leases paid that year, $1,204,427.46.

Bound volume 2, 1929, contains the report of Ohio Fuel Gas Company, controlled by Columbia Gas & Electric Corporation.

This account No. 205, leaseholds, shows total on December 31, 1928, $2,174,205.40; additions during year, $6,304,075.43; total on December 31, 1929, $8,478,280.83.

The additions during the year since they were in the year that the Logan was taken over by Ohio Fuel Gas Company, were almost wholly, possibly wholly, due to the leasehold acreage and values taken over from the Logan. That accounts for the large increase.

The gas well royalties paid that year, $462,558.92; the rentals on unoperated leases paid that year were $1,529,829.45.

The number of acres under lease was not given.

Bound volume 2, 1930, reports, contains the report of Ohio Fuel Gas Company, controlled by Columbia Gas & Electric Corporation.

Account No. 205, leaseholds, shows—there must have been a little change in language—"Charges to the leasehold account, additions, $313,842.08, which brought the total leasehold account to December 31st, 1930 to $8,792,122.91.

Now, I quote from that report. "Number of acres under lease in Ohio at close of Year, 360,255 acres; 2,565,473 acres unoperated.

The report further shows gas well royalties paid that year, $568,027.10; and rentals on unoperated leases paid that year, $1,888,517.22.

I was looking for an exhibit which must be in one of 4580 [fol. 2027] the exhibits that was taken away, an exhibit showing the assets and liabilities of the Logan Gas Company, where, on the liability side, there are $10,000,000 plus included as resulting from appraisements of property, which I assume may get the two amounts of which we were talking this morning, about seven millions and three million, seven hundred thousand, and I will have to find that, Mr. Turner, and bring that to your attention.

Now, as I have said——

Mr. Turner: May we have that marked?

Commissioner Hopple: Referring to what exhibit?

And thereupon a paper writing was marked for the purposes of identification City's Exhibit No. 83.

The Witness: Referring to City's Exhibit No. 83, which Mr. Turner has compelled me to have marked, it is merely an envelope——

Mr. Turner: Your own or somebody else's?

The Witness: Mine. It is sealed up but it can be unsealed if there is any doubt about it—and on which I made some memoranda.

Mr. Turner: Is there a check or bill inside?

The Witness: It would be only a check, of course. Memoranda that I made as I have gone along in these matters, and some of them over in the Supreme Court. And I wanted to call attention, so that you may examine it, to page 3309 of the Logan Gas Company's rate record, where Mr. Newman was asked, "Well, can you give us a general idea of what since 1917 has been the prevailing price for undrilled acreage? Answer: Very often a dollar a lease,

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[fol. 2028] plus the cost of acquiring it."

Mr. Turner: Of course, we have an objection to all this.

The Witness: "Question: A dollar an acre? Answer: No, a dollar for the lease."

And I shall bring more of that when we get these copies. I couldn't get any more from the Supreme Court.

Now, if the Commission please, in preceeding No. 5513, before the Public Utilities Commission, styled in re Logan Gas Company, and the Ohio Fuel Gas Company, transfer and capitalization, and I refer to the bound-volume from the files of the Commission, this is the proceeding where the Logan Gas Company asked and received authority to sell, and the Ohio Fuel Gas Company asked and received authority to acquire, the property of the Logan Gas Company. And also there was authority for the Ohio Fuel Gas Company to issue its capital stock. Now, that is on the files. I have a copy of the joint application and a copy of the order. I call attention to the third paragraph of the joint application: "Both of your petitioners are subsidiaries of Columbia Gas & Electric Corporation, a corporation organized under the laws of the State of Delaware, which is the owner of all the shares of the capital stock of each of your petitioners"——

Mr. Turner: Who are "your petitioners"?

The Witness: "Except directors' shares." The petitioners are the Logan Gas Company and the Ohio Fuel Gas Company.

And this may be marked for identification. A copy of the joint application, which will be City's Exhibit 84, and a copy of the order therein, which will be City's Exhibit 85.

I think I owe sort of an apology to the Commission and to counsel for testifying, but since we were adjourning, it

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[fol. 2029] seemed only fair to get these figures in the record so that they could be checked, and so that if they called for anything, Mr. Turner and Mr. Calland can prepare against them. I only claim the privilege of having them re-checked by other people to see if I have them correctly. Some of them were made rather hurriedly and under stress and strain. Whatever else we have to offer will be offered when we get copies of that testimony, I mean in that particular matter.

Mr. Turner: Are you ready for cross-examination?

The Witness: I will submit to it.

Mr. Turner: If the Commission please, you have heard this mass of data that has been submitted here, and I am quite sure that no one can digest, much less cross-examine on it, unless we have at least four months' time.

Mr. Davies: Is that cross-examination?

Mr. Turner: I am getting ready for it, and I would like to have Mr. Butler's papers, Mr. Butler's working papers, and at least four months' time. Of course I can ask a few questions today.

Cross-examination.

By Mr. Turner:

Q. And I would want to know now—Mr. Butler has explained about his interpretation of these papers that he has offered—I would like to know just what kind of an expert he claims to be in giving these interpretations.

Commissioner Hopple: You may qualify him.

Mr. Turner: No, I think we will disqualify him.

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[fol. 2030] The Witness: No, General Turner, I think, misconceives what I have been going. The lawyers will interpret the figures and argue with them. I have been bringing the figures to the record. Now, as to my working sheets I have given what you might call the final working

sheets, but I have another, which is rather badly marked up, but I will gladly submit it.

Q. Don't get off of the stand because we are not through with you. May we have it photostated?

A. No, not that. Do you want it marked?

Q. No, I would like to examine it only.

A. Give me your receipt for it.

Q. Mr. Butler, what experience have you had in telling the truth?

A. About 64 years.

Q. Are you related to Henry Worley?

A. No, but I see many fine qualities in him.

Q. So do I. I am wondering if you remember a long time ago when we started into the testimony in this case and put our first witness, Welker on the stand, and he had some data to which he referred, that you arose, and in a voice quivering with indignation, objected to it and insisted that the original should be here? I am just wondering how you are going to stand up before this Commission after being on the stand today again and complain as you have complained before?

A. I do not remember the incident, but the picture seems rather natural.

Q. I am further wondering if in future cases you will make as many demands for exhibits and copies as you have heretofore?

A. No, I think not. I think, frankly, as the years go along, if I were to continue to try gas rate cases, and doubtless it is my last gas rate case, I should try to get the at-

4584

[fol. 2031] torneys and engineers together and see if we could not cut down the exhibits. I am convinced that attorneys and engineers working together could help the Commission tremendously.

Q. I agree with you in that.

A. But I am not censuring you. I am simply saying that all of us are jointly to blame for that.

Q. You remember you ordered so many copies. You had Seyffert here with his tongue out most of the time, because you had him working day and night on making up exhibits and copies. And I am wondering whether now, after having made up some exhibits of your own, you haven't a little remorse in your soul?

A. You will recall I bore eloquent tribute to his industry and generosity.

Q. You don't want to define Pascal's law or Boyle's law?

A. No, General. There is no need of doing that unless—you will want to read up on that first.

Q. If you claim a privilege——

A. No, I don't claim any privilege.

Mr. Turner: We can't make a witness testify to anything that might incriminate him.

Q. Now, there is one serious question I do want to ask you, and I hope you will not be offended if I ask you if you have ever read, among your searches here through the archives of the Commission, its uniform classification of accounts for natural gas commodities prescribed by the Public Utilities Commission of Ohio?

A. I am more or less acquainted with that. More I should say. You would probably say less. But, of course, we all know about it.

Q. Now, may we agree that on page 18, item 102, it is

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[fol. 2032] provided in part, "The constituent elements of such fixed capital"—this is cost of fixed capital installed prior to January 1st, 1921, as you see by glancing at the top there, and I am referring to the last paragraph on the page—"The constituent elements of such fixed capital shall be appraised at their structural values, that is the estimated cost of replacement." That is not the place, I guess, I want. I had a page here a while ago some place.

A. Maybe there is no such place.

Q. Oh, yes, here it is. There are several places. Look at the bottom of page 44, "Required data in fixed capital charges," and take the last sentence there. "If it was acquired prior to January 1st, 1921, and the original cost of it is not known, the utility shall make an estimate thereof and shall state the fact in the entry"—that concerns the addition, betterment or appraisement—"and shall show therein the basis of such estimate."

And then going back again to this page I just referred to, which I think is the top of page 19, and paragraph 102, "When the fixed capital purchased has been so appraised credit to this account the purchase price and charge to the appropriate fixed capital account either the appraised value

or the purchase price, and if the purchase price is in excess of the appraised value, charge the constituent elements to the proper fixed capital account at the appraised values and charge the excess to account 203."

That is in there, isn't it?

A. I didn't follow it closely, but I know you would not read it incorrectly.

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[fols. 2033 & 2034] Q. Well, we will wait until we get your working papers, and then let you know how much further cross-examination we have.

A. You have all my working papers, General.

[fol. 2035] Amortization—Depletion

The Ohio Fuel Gas Company

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[fol. 2036] Chairman Geiger: Before we pass to another subject, may I ask one or two questions?

On your Exhibit No. 22 which you introduced in evidence yesterday it indicates that The Columbia Gas & Electric Corporation has a proposed line from Williamson in West Virginia through Virginia to Washington City, Baltimore and to Philadelphia, and that the Columbia Gas & Electric Corporation has a line already in operation to Philadelphia, and also propose a line from Binghamton, New York, to New York City, is that correct?

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[fol. 2037] The Witness: Not just as you have stated it, sir. The pipe line from Williamson to near Philadelphia—it is not right to Philadelphia; it is near Philadelphia—is partly constructed now.

Chairman Geiger: How near to Philadelphia; does it go as far as Baltimore?

The Witness: It goes past Baltimore; it goes through Washington, past Baltimore, and near Coatesville, Pennsylvania; that is under construction; those lines you see along the southern border of Pennsylvania are in operation; the line up in New York State is in operation as far as Binghamton towards the east, and the line is constructed to near New York City, or Newark, New Jersey.

Chairman Geiger: All right. Well, now, if the Columbia Gas & Electric Corporation, which is the parent company of these subsidiary companies, had any fear that there was to be a near failure of the gas supply in the various gas fields, why have they expended large sums of money, which they necessarily must do, to construct these distribution lines into these large cities?

The Witness: I have not heard any one say that the Columbia fears that the supply would exhaust.

Mr. Turner: Mr. Seyffert has correctly answered that there has been no such testimony and no statements made except Mr. Butler's questions.

Chairman Geiger: You then would say that there is no imminence of failure of the gas supply at this time?

The Witness: I know the management of the Columbia well enough to know that they are not spending money

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[fol. 2038] unless they can feel that they can get their money back and an earning from it. They are good enough business men to do that, and they certainly have looked into the question of the supply of gas before they would build a line of that type.

Chairman Geiger: All right, then, that answers the question; there is no fear now in the monds of The Columbia Gas & Electric Corporation that there will be a near exhaustion of the present supply of gas?

The Witness: None that I have ever heard expressed.

Chairman Geiger: All right.

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[fol. 2039] Seyffert further testified:

Q. Mr. Seyffert, I direct your attention to Company's Exhibit No. 44, "Cost Analysis of System-wide City gate rate", and I especially direct your attention to page 16, the determination of annual allowance for amortization; by the way, this No. 44 is your work?

A. It is under my direction, yes, sir.

Q. Well, you assume the paternity of the principles enunciated therein?

A. I do not know whether I can make it quite that broad or not.

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[fol. 2040] Q. Well, why can't you make it that broad?

A. Because there are figures in here taken from Ford, Bacon & Davis.

Q. Well, I was about to say, of course you have made that plain, that the inventory and appraisal you take bodily from them or from others?

A. Yes sir.

Q. You assume no responsibility for that?

A. No, sir.

Q. Well, with that excepted, we assume then the rest of it is yours?

A. I think that can be generally stated, yes, sir.

Q. Now you are going to write this whole investment off in 25 years?

(No reply.)

Q. That is your purpose?

A. 20 or 25 years; I do not know that we can make it absolutely definite.

Q. Why not 25 or 30?

A. Well, in my judgment, that is too long.

Q. Well, you did select 25 and I ask, that is your best judgment?

A. Well, I cannot say I just selected 25; I selected about that and used four percent.

Q. Well, 25 into 100, of course, does give four percent. You say the present estimate of the probable life of the natural gas business based on extensive surveys, geological studies, well-pressure decline and analysis, etc., indicates a probable period of 25 years?

A. Yes, sir.

Q. How do you make up your mind about that? Refer us to the literature which has aided you in reaching that conclusion?

A. I am not referring to literature; I am referring to my experience in the business, together with the contact and experience of other people and the generally known hazards

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[fol. 2041] of the business and the character of the business, all of which is taken into consideration in arriving at what is a reasonable term over which we feel that we must get a return of the capital or of the value in order not to suffer a loss.

Q. I think you told me rather fairly one day that in no sense did you consider yourself an engineer; you consider yourself an accountant and auditor?

A. No, I consider myself more than an accountant and auditor. I have been with the company in this business a good many years.

Q. Oh, I know you have.

A. And I know something of the character of the business.

Q. Well, have you made a study of the life of natural gas?

A. Well, in my connection with the company, the question of the life of wells and the question of the continuance of the business comes up frequently.

Q. But, Mr. Seyffert, a few years ago, five or six years ago, your company was saying that five or six years was the probable life; what has brought about the change?

Mr. Turner: Which company?

Mr. Butler: The Columbus Gas & Fuel Company.

The Witness: Well, I do not know anything about such a statement, to begin with.

Q. You think it was wrong, if it was made by anybody?

A. Well, I cannot say because I do not know that it was made.

Q. Well, I will relieve you of that obligation; I will put it differently. Could that have been properly said in 1925, that the probable life of the gas business was five or six years, natural gas business?

A. Well, I don't hink it could, no.

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[fol. 2042] Q. We don't think so either, but I am interested in knowing how you get at 25 years?

A. Well, you know and I know that no one knows exactly when it will be; we have got to make an estimate of that, and as I say here the probable theory is 25 years; it depends upon many things; it depends upon whether you will find additional fields; it depends on how much is taken out each year; and all those things have to be weighed and some estimate has to be made of the probable life which we have done, and we have estimated that as 25 years, which is as long as I think we should for those purposes.

Q. Have you a discussion of that somewhere where you have gone into it, where you have from an accountant's or an engineering point of view reached that conclusion?

A. No, sir.

Q. Well, you think that is the best answer you can give me?

A. I do, yes, sir.

Q. All right. What does the Company's balance sheet reveal as to the amount of the reserve for depreciation and amortization?

A. I haven't those figures with me, Mr. Butler, I may have them.

Q. As of December 31st, 1921.

A. I may have it here. In Exhibit 43, page 5, the depreciation is $19,006,536.66; the amortization $1,739,029.89.

Q. Then you have a surplus of how much?

A. We had a surplus December 31st, 1929, of $5,288,031.10.

Q. Not that reserve—and I have it in my notes as $20,726,000.00——

A. I think you have added the two together; I think that is about right.

Q. Oh, I see. Now that has gone into your property, hasn't it, that 20 million dollars plus; what have you done

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[fol. 2043] with that reserve?

A. Yes, that has been reinvested in the property.

Q. Well, now, do you mean to say that you expect the Commission to allow you to amortize that $20,000,000.00 at the end of 25 years?

A. I expect the Commission to allow us to amortize any amount of money that is put into the capital of our business.

Q. Well, in the next 25 years at the rate you calculated of about $1,420,000.00 a year, you would raise that to $35,000,000.00 or $40,000,000.00 more; would you expect that to be returned?

A. Whatever money is put into plant absolutely we expect to be returned to us.

Q. You want this Commission now to allow you to bring back the whole of this $140,000,000.00 at the end of 25 years although you already have a reserve in excess of $20,000,000.00 and although under your set-up you will in the next 25 years get an additional reserve of $35,000,000.00 or $40,000,000.00?

A. That is rather a long question but I think I can answer it——

Q. All right.

A. By saying that the value of the property as found here is $140,000,000.00; we certainly are entitled to have that returned to us during the life of the property; by application of four per cent we will get it back in probably 25 years or thereabouts. Now if at the end of that time we get the $140,000,000.00 back, and reinvest it in property, we will certainly expect it back, because that money belongs to the stockholders and it is reinvested in different property and during the life of that property we certainly would expect it back again; or any other money that is put into the plant; always we must get it back or we stand to suffer that loss.

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[fol. 2044] The Witness: I think I can illustrate to clear you up on that in this way; we start out with the $140,000,000.00 and go ahead and operate our property; we set up an annual allowance against that each year. If we do not make any extensions that amount will accumulate in money, provided of course we always have enough earning to create that. It will gather there in money in the company's coffers. At the end of the 25 year period—and let us assume that is the correct length of time—at the end of 25 years the property will be gone; there will be no longer any gas and the property will be practically worthless; but the company will have $140,000,000.00 in the bank to return to it the value of the property it has in this business at this time. Now, as it happens, as we go along we do have to make extensions; that is something new, entirely different from this valuation that we have here; that is an addition to property and consequently we are entitled to that money back over the life of it.

By Mr. Butler:

Q. What are you going to do with this $35,000,000.00 or $40,000,000.00 that you propose in the next 25 years to take for the purpose of depreciation—what you call depreciation and amortization as distinguished from your big amortization; what are you going to do with that; and whose money is that?

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[fol. 2045]

A. It is the stockholders' money.

Q. The stockholders' money?

A. Yes, that belongs to the stockholders. When the company earns some money at agreed rates or rates adjusted by the Commission and creates an amount above operating expenses, that belongs to the stockholders. The reserve is setup for the benefit of the stockholder so that he will get his money returned to him.

Q. But you are going to return it to him under your general amortization plan?

A. I don't get your question.

Q. All right. By the way, how long has this company been in operation? Give me the historical set-up of this company in as few words as you can.

A. Well, of course it has been growing all the time; it has been growing all the time; it starts out in a small way and the earnings and the depreciation reserves have been reinvested in the plant until it has grown from—I think The Ohio Fuel Supply Company started in 1902; some of the other units may have been a little older. I think The Columbus Gas & Fuel Company was a little older than that; probably not as a natural gas company; but from that beginning they have grown up to what they are today.

Q. The Logan Gas & Fuel Company, which The Ohio Fuel Gas Company took over in 1929, started when?

A. I don't know exactly; I was not familiar with the early dealings of that company. The Logan Gas Company, or Logan Company as we knew it, started in 1922, the latter part of 1922, but it was a combination of some others

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[fol. 2046] that started before that; how much before I don't know.

Q. Don't you know years and years before?

A. Well, yes, I know some of them were years before, yes, sir.

Q. Well, now, by what process of reasoning do you take those combinations of properties and fix them at $140,000,000.00 and then amortize off the whole of it in the next 25 years?

A. I have told you before that I did not fix the $140,000,000. However, that was fixed through a valuation which is expressed here. Now if we are to go forward with this plant and if we are right in our estimate of the life of 25 years, then we must amortize it at that rate in

order to get the value of the plant back in that period of time.

Q. Well, shouldn't you have been amortizing back there; shouldn't somebody have been amortizing?

A. Not necessarily, no, sir.

[fol. 2047] Mr. HAMILTON testified as follows:

1120

[fol. 2048] Q. Can you give us the general at-the-well price of gas in the Mid-Continent field?

A. No, it varies considerably due to the proximity to large gas lines now built because at the present minute and for some time past, due to the oil drilling operations, there has been an over-production of natural gas in that territory and the chap who happens to be unlucky enough to bring in a gas well some distance from a gas line cannot sell it at all. Those contracts which are in effect in Okla-

1121

[fol. 2049] homa, with which I am mostly familiar, are now running on the average I should say of 6½ cents. There are numbers of wells in Oklahoma pulled where they would be glad to take three cents, but the pipe lines cannot take the gas because they are already tied up with contracts; and there has been one offer published in the papers very lately of an operator down there who has for some time been unable to dispose of any of its gas, offering it free to anybody who will come and get it and build a pipe line to take it.

[fol. 2050] Mr. SEYFFERT testified on cross-examination as follows:

2121

[fol. 2051] Q. What is the average age of these 1,090 Logan gas wells, the average age at that time?

A. I think some one else—I did not do this—someone else figured out the life of those wells, and I think it was from seven to nine years.

Q. Well, you mean that was the average life of them; and that is all right; I am glad to get that; but what I had in mind was the average age; I should not have said "life";

average age of the wells at the time they were taken over?

A. I do not know that.

2331

[fol. 2052] Q. Every time you make an income tax return for your producing wells, you do make an estimate of the depletion of the well, which is recognized by the government in a credit given to you in the value of your property on account of its depletion which has occurred during that year; don't they allow that in gas wells, mines, copper mines and everything that has a natural tendency to reduce the material if it is being operated.

Mr. Turner: Wasting assets, the Commissioner has in mind.

Chairman Geiger: Yes.

A. The allowance is, of course, not exactly that. They give you more or less a fixed allowance which you elect to take, and you give them all the dope that you have got and you talk to them and their geologist, who is supposed to have the object in view of fixing something that is fair to you, and they put their own estimate or value upon the information available.

Q. Answer this, and it won't take so long; isn't it a fact that every year a gas company which owns gas wells, in making its returns to the Treasury Department for the purposes of taxation and the income tax, does take into account depletion that has occurred during that year in its property?

A. Yes, sir, in some form or other they make an allowance for depletion of wasting assets.

2589

[fol. 2053] Q. Frankly, Mr. Seyffert, I assume in so far as any variation would affect the rate base, we could consider it negligible, I mean the difference between your estimate and what the vouchers may actually eventually show?

A. Oh, I think so, yes.

Q. So that makes a total with respect to those thousand wells of $3,795,170.71?

A. Yes sir.

Q. Now, just as before, these thousand wells, although they are included in the inventory and appraisement submitted here in respect to Ohio Fuel Gas, yet the construction costs of those wells, approximately, partially by exact

figures and partially by an estimate, approximating $3,795,170.71, were actually *apid* as a part of the current operating expenses of Ohio Fuel Gas?

A. That is right.

Q. Now, for the 1,524 wells that makes a total of how much?

A. 5,629,170.

Q. That was what I felt sure the other day would appear as to some of these wells. Some of these wells antedate 1910 or '11?

A. Yes, some of them.

Mr. Turner: They are all flowing wells?

A. They are all producing wells, yes, sir.

Q. Are those Logan wells that antedate 1910 or '11?

A. I can't answer that definitely, but I think it is some of both.

2589

[fol. 2054] Q. Let me right there ask you whether you do have the average age of those Logan wells and of those Ohio Fuel Gas wells or of the combined wells?

A. I have the average age of the combined wells, 8.9 years. There were just a few that we could not get the actual age on. Instead of the 3,565 wells as shown by the exhibit, the average age of 3,491 is 8.9 years.

2590

[fol. 2055] Q. Yes. That is negligible. What were your oldest wells?

A. There is one 1885.

Mr. Turner: And it has not given out?

Commissioner Geiger: Still flowing?

The Witness: Still making some gas.

Q. And then run down roughly how the ages went.

A. One in 1899; five in 1900; five in 1901; 11 in 1902; 15 in 1903; 21 in 1904; 29 in 1905; 33 in 1906; 37 in 1907; 42 in 1908. Do you want them all?

Mr. Turner: Go ahead.

The Witness: 57 in 1909; 65 in 1910; 73 in 1911; 72 in 1912; 85 in 1913; 89 in 1914; 128 in 1915; 144 in 1916; 239 in 1917; 220 in 1918; 136 in 1919; 165 in 1920; 201 in 1921; 179 in 1922; 216 in 1923; 163 in 1924; 159 in 1925; 231 in

1926; 222 in 1927; 272 in 1928; and 175 in half the year 1929. We got this out June 30th.

By Commissioner Geiger:

Q. Now, those are flowing wells at this time?

A. You say flowing? They are probably all being pumped. They are all producing some gas, yes, sir.

Q. That does not include a well that was originally dry when you drilled it, nor the one which has gone dry since you have drilled it?

A. No, it doesn't include any of those.

By Mr. Butler:

Q. Have you in that connection made a study of the average age, the average life, I should say, of your wells?

A. There was one made several years ago, and if I remember correctly, it was around seven and one-half years.

[fol. 2056] Q. Well, I would like to see that study. I would like the details of it. Do you have it?

A. I don't know whether I can find that or not. We may have to make a new one. There was a study made of a

2591

[fol. 2057] period of two and a half years recently. That had an average life of nine and one half years.

Q. Now, in determining the average life, the average age of these wells, you have considered only these 1,524 wells?

A. No, no. I have considered 3,491 wells out of 3,565 wells.

Q. Oh well, I mean that. I stand corrected, that is, you have considered the wells that are now producing wells?

A. Yes, that are now producing wells, yes, sir.

2798

[fol. 2058] Q. Anything else, Mr. Seyffert?

A. Yes, sir; you asked me for the average life of the abandoned gas wells of The Ohio Fuel Gas Company and I find that life to be 7½ years.

Q. How far back did your study go, Mr. Seyffert?

A. The oldest date I see on here is 1894.

Q. Does that include a study of the Logan Gas Wells too?

A. It does.

Q. What is the total number of wells included in that exhibit?

A. 2492.

Q. Is there a sort of an average by year of abandonment?
A. No, sir.
Q. There is no way of figuring that?
(No reply.)
Q. You do not make an exhibit out of that?
A. No, I haven't that in the form of an exhibit.
Q. That is all right; and those wells therefore are necessarily scattered over the whole gas area of the Company?
A. I should say there were.

[fol. 2059] Mr. Seyffert testified on direct examination as follows:

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[fol. 2060] Commissioner Bricker: What else would you set up amortization on except leaseholds?
The Witness: Set up amortization on the whole property, because when the gas is gone, the rest of the property will be of no value to the stockholders.

Q. Let me right at that point, if I may, Your Honor, go
5196
[fol. 2061] into an illustration of the situation, such a situation. Prior to 1914, as I understand it, the Columbus Gas & Fuel Company had its own pipe lines. They were getting gas from Licking and Fairfield Counties, and I believe one well in Knox. They had two compressor stations, one at Crawfis and one at Patten's Corners. These two pipe lines coming in. Now, what became of those two pipe lines and the compressor stations so far as the Columbus Company was concerned?
A. I don't think any of them are in use today.
Q. Well, when their gas gave out and they had to come to the Ohio Fuel Gas Company for gas, of what use were those lines and compressor stations to the Columbus, Gas & Fuel Company unless they could trade them off to somebody?
A. They were of no further use. I don't know just when that disuse occurred, but they are of no use now.
Q. Have the gas fields of Ohio shifted from time to time?
A. Yes, sir.

Mr. Turner: I ask those questions, Your Honor, because you asked the question of why amortization. It is the theory of the company here that you have to amortize this whole property over a certain length of time. I think in

our exhibits we have amortized it over a period of 40 years.

Commissioner Bricker: Those details as to time and amount and the segregation of depreciation are all set out in your original exhibits?

Mr. Turner: Yes. This depreciation exhibit here is put up to meet what I got from the defense attempts to inquire about it as attempting to say that this has been paid for by rates. It is the contention of the company that there

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[fol. 2062] has never been a rate fixed which took into consideration any depreciation at all.

Q. What was the percentage of the depreciation reserve to the total property account, that is, your book investment, at the end of the year 1928?

A. It was 22.73 per cent.

Q. At the end of 1929?

A. 22.2 per cent.

Q. And at the end of 1930?

A. 21.19 per cent.

Commissioner Bricker: I cannot keep these things in mind. I cannot remember the whole exhibits. But what is the approximate percentage in addition to that both of the gas resources and your wells?

The Witness: In the Columbus Gas & Fuel Company we used an over-all percentage of 4 per cent., which included depreciation, replacement reserve, retirement reserve, and whatever element of amortization there would be in the distribution of that. In Exhibit 44 of the Ohio Fuel Gas Company, we used 2 per cent for replacement, retirement reserve, and 4 per cent for amortization, both figured on the rate base, which is a depreciated amount.

Commissioner Bricker: Is that the substantial amount that you have charged to depreciation in order to arrive at these original figures here set up in 1928 throughout the years—to arrive at these figures which you are submitting here?

The Witness: The amounts placed on the books have always been a more or less arbitrary matter, depending somewhat upon the earnings of the company, what the company could stand, and good managemet would always prescribe that we must set up something to take care of these emergencies as they come. And I think by studying this

5198

[fol. 2063] you will see that in the last three years each year we set up a little less than the year previous. That is due mainly to the lack of earnings.

Now, you will also notice by the next column we have not set up enough to keep pace with the annual charge-offs in those years. So we have to have some cushion there to go on to take care of these emergencies as they come, and at the same time set up something for the ultimate exhaustion of the gas and the depletion of the fields and the writing off of the investment of the stockholders.

[fol. 2064] J. PAUL BLUNDON testified as follows:

4358

[fol. 2065] Commissioner Bricker: Based upon Ford, Bacon & Davis' study of the present condition of those wells, what would be the life, the average life, of a gas well in Ohio, approximately, if you have it?

The Witness: I can give you that, I think, sir; it will take just a second. 43¾ years.

Commissioner Bricker: And what would be the average life under your set-up?

The Witness: Between 15 and 16 years.

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[fol. 2066] T. R. WEYMOUTH testified on cross-examination:

Q. Do you believe in a depreciation for gas wells?

A. I wish you would make that clear to me, just what you mean.

Q. Yes, I think you are quite right. Do you believe in an allowance for depreciation, an allowance in the operating——

A. An annual amount taken from the revenues to set up a depreciation reserve? Is that what you mean?

Q. Yes, decidedly.

A. That is quite essential in order to accumulate the amount of money which would been necessary to replace or pay back the cost of that well at the time when the well expires by absolescence.

Q. How do you work that out?

A. In practice that is usually a more or less arbitrary charge made by the accounting officers of the company, which is intended to reflect, as nearly as possible, their estimate of the amount of money which will accumulate and be on hand from year to year to replace the various items of property, including wells and well construction, as they expire, from year to year. As I say, it is a more or less

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[fol. 2067] arbitrary charge made by the accounting department.

Q. I suppose there is some reason and some method back of it?

A. Yes, they attempt to have it be of such magnitude as to reach the proper value as I have tried to testify. Sometimes they are not able to do it, because of insufficiency of earnings, that is, they are not able to allocate as much of the revenue to that item as they should. There are various ways of estimating it, if that is what you want.

Q. I am talking about what they ought to set aside if funds are available. Now, I want to know whether that is the case?

A. There are various ways of determining that, of estimating it.

Q. What is your way of determining the amount that should be set aside?

A. I haven't got any particular way.

Q. It varies with the locations?

A. It depends upon the conditions. Sometimes that is done by a flat percentage of the physical property according to the judgment of the officers. Sometimes it is done by a flat percentage of the gross revenues of the business. Sometimes it is done on a rock pressure basis, in which they estimate the depletion from the rock pressure readings made each year.

Q. Mr. Weymouth, suppose the Commission were to say to you, "Now, Mr. Weymouth, by Monday morning, bring to us your theory of fixing a proper amount for well depreciation in the Ohio Fuel System," what method would you choose to bring in Monday morning?

A. Mr. Butler, I have had that very problem before me for several years, and I have never been able to work out a satisfactory solution, partially because I have not had the time to concentrate on it, and possibly because I might

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[fol. 2068] not be able to solve it if I had. But I haven't got an answer to that question yet.

Q. Isn't that due to the fact, Mr. Weymouth, that you are mentally unwilling to concede that gas wells grow old and die, and that they become less valuable because of that?

A. Not at all. I am not only not unwilling to concede it, but I state it is a positive fact, that gas wells do grow old and die, and it is necessary to lay aside this annual allowance to provide for the contingency. But that is an entirely different question from saying that their condition at any given date is thus and so. That is merely a question of accumulating a sufficient amount of money to replace them or pay their cost when they finally do expire from whatever cause.

Q. Mr. Weymouth, I assume you have carefully and systematically inquired into the history of the leases and wells in the various properties that now make up The Ohio Fuel Gas Company?

A. No, I have not done that in detail with this company, because there are other men who are devoting their attention to that, and my duties preclude the possibility of going into that detail.

Q. You know something of the length of time over which their history extends; or its history; you know the Ohio Fuel Gas took in the Logan, don't you?

A. Yes.

Q. You know the Logan had large acreage and wells?

A. Yes, but I am very hazy as to the details of the history of it.

Q. Even with your haziness; I venture to ask you further, with your peculiar views, you would care to know anything about the history of the wells that go to make up this property and have made it up, about their experience,

5295

[fol. 2069] about their lives, when they die; if I understand you, you attach no importance to that item?

A. For what purpose? You do not complete your question. Of course, I want to know about them as much as I can, but for what purpose?

Q. What good would it do you if you knew all of that? What use would you make of that knowledge?

A. I am merely trying to get at what you are asking me. You say would I care to inquire into these things. But for

what purpose? Of course, I want to know as much as I can about them.

Q. Would that affect in any way your idea of the value of the wells?

A. Undoubtedly it would be information which I would want to know in arriving at the value of the property, certainly, but you will have to be more specific in your questions so that I can answer you.

Q. I imagine that I represent a very rich syndicate and you are my engineer, and we want to buy all of these properties from Ohio Fuel Gas. Of course, I am depending upon you to give me some idea of the worth of the property. Would you want to know all about it?

A. Decidedly. I would commence the very first thing with complete history of the properties.

Q. And a history of each well?

A. If I could get it, yes.

Q. Why shouldn't you do that in a rate case?

A. I think you should.

5418

[fol. 2070] T. R. Weymouth testified on cross-examination:

Q. If you wanted to fix the annual depreciation charge for each particular well, would you fix the same for the new well that you would bring in that I have talked about or would you fix it the same as for the original well that came in and is still producing, say?

A. If you were going to get up an annual depreciation allowance for each individual well, you would then be confronted with the problem of estimating the period during which the accumulation of annual depreciation allowances would build up to the cost of the well.

Q. Would the old well approximately continue down, have as long an after life as the life of a new well?

A. You are assuming I presume the well such as Mr. Pepperberg's chart 4009?

Q. I have no reference to his chart at all. I am talking about this pool that I started with you where there was a declining rock pressure, where it had been operated and where you were confronted with a problem of taking it out through a longer period or putting additional capital in and more wells and taking it out in a shorter period. Now, I am

5419

[fol. 2071] assuming, you have put new wells in and you are depreciating the well construction cost of the individual well. Let me put it differently, wouldn't it be more per year on the new well than per year on the old well?

A. The allowance should be more on the new well on the assumption that with the same sand and the same general characteristics and assuming that the rock pressure of the new well was the same as the rock pressure which had been attained by the old well, the presumption would be that with the same withdrawing of gas from both of them, they would have the same life, and since you had been accumulating a reserve fund against the old well for the first few years of its life, the rate per year which you would set up as against that well would be smaller than the rate per year for the new well.

5425

[fol. 2071a] Redirect examination.

By Mr. Turner:

Q. Mr. Butler has asked you to assume a pool where you had a number of wells and you had fixed a rate of depreciation upon each well and then after the number of older wells that had been in for some time, you drilled in some new wells. He asked you about the rate of depreciation that you would use for these new wells, and you answered that. Now, I want to know what effect the new wells would have upon the old wells already drilled in that pool, would they not accelerate the exhaustion of the whole pool?

A. Yes.

Q. And on Mr. Butler's theory then, would you not immediately go back and revise the depreciation estimate or reserve for the old wells when you put the new ones in?

A. Yes, if you had not taken that into account in estimating the rate of depreciation allowance for the original well, we would.

Q. Is a reserve set up on the books of the company for depreciation the measure of the present condition of the property at any particular time except the end of the life of the property?

A. It has no connection whatsoever with it until the end of the life of the property and it is not coincident with it in any way.

Q. What is the practice as to setting aside of a depreciation

[fols. 2071b & 2072] tion reserve, is it made by a lump sum or by some percentage of property in the gas business, what is the usual practice?

A. It is usually set aside in a lump sum of dollars. That sum varies from year to year, but there is no case that I know of where individual items of property are separately set up or where depreciation allowances are made for individual items of property.

[fol. 2073] Gas Well Depreciation

2004

[fol. 2074] P. ANTONELLI testified on cross-examination as follows:

Q. How do you appraise a gas well?

A. We appraise a gas well—do you mean find the estimated cost of production new; is that what you have in mind?

Q. Well, you have appraised gas wells, haven't you, through many gas fields?

A. Yes, sir.

Q. Now, what is your formula?

A. We went to the company records and from the company records we made an inventory of the casing and tubing in the wells. From the well longs, another record in the office files, we prepared a statement showing the depth of each well, the actual depth of each well. Of course, the inventory was subjected to all kinds of check. Then the wells were segregated into two accounts; one is well construction cost and the other is the well equipment. The well equipment, which consisted of casing and tubing, was priced by obtaining from the National Tube Company prices as of December 31st, 1929. These prices were checked against the Company's recent purchases to see if the Company is paying the same prices. The well construction cost was based on an analysis of 365 wells and these wells represent the number of wells that have been drilled by the Ohio Fuel Gas Company during the year of 1929. From this analysis we were able to determine the cost per foot for the construction cost of the wells.

Q. In other words, the equipment cost plus construction cost equalled the present reproduction cost?

A. Yes, sir. They are separate, in one account, under Account 211, which is the well construction account, and 212, which is the well equipment account.

2005

[fol. 2075] Q. How do you depreciate a well?

A. The wells are depreciated by going out in the field and examining the physical deterioration of the casing and tubing of wells that has been recently abandoned. We made a physical examination of the wells and determine the physical deterioration.

Q. Does depletion of a well, the life of a well, have anything to do with its present value?

A. No, we have not considered depletion at all. We have treated the well account on the same basis as pipe lines.

Q. Do you anywhere in your computation fix an average life for those wells?

A. For the physical condition of the wells, do you have in mind?

Q. No, the end of the well, the depletion of the well, the life of the well, the life of it as a producing well?

A. No, sir.

Q. They did not enter at all——

A. No, sir; we state that in our summary volume, that we did not make any valuation of the gas wells or the leaseholds.

Q. Well, I am talking about a well now?

A. Well, the depletion of a well has something to do with the gas in the ground.

Q. Well, I guess that is probably right. Any way, you have made no study here in Ohio in reference to the life of the gas wells?

A. We attempted to make such a study, but we were requested by the Company not to do it because we were asked to make a physical examination of the property and not to examine or make a study of the amount of gas in the ground.

Q. Well, isn't the value of a well dependent upon its life?

2006

[fol. 2076] A. Not in accordance with the reproduction cost new, the theory that we used here.

Q. Well, it would seem that in the beginning then you had a little different idea and yielded to the Company's

directions rather than to your own original intention; am I right or wrong?

A. I don't know how to answer that question.

Q. Well, you say you started to make a study; I hope I caught you correctly; but that you stopped it because you were requested by the company not to make it; am I quoting you rightly?

A. Well, that study might have been used for some other purpose.

Q. Oh, no; answer my question, Mr. Antonelli.

A. Would you repeat that question, please?

(Question read.)

A. Well, I suppose that the company did not think it was necessary to go to the expense.

Q. Oh no, no, no, you are a trained engineer, Mr. Antonelli; won't you listen to the question? I know there are some difficulties of language and I want to make allowance for that. I am not over-critical, but I want to get what you stated so that you and I will never differ. Now, read the last question again.

(Last question read.)

A. We stopped.

Q. Oh, now——

A. Well, I am going to answer.

Q. Explain it afterwards. I have asked you the simplest question that one man can ask another.

A. I still do not understand.

Mr. Turner: Do you understand the word "quote"?

2007

[fol. 2077] The Witness: Yes, sir.

Mr. Turner: Well, he wants to know whether or not he quoted you correctly; that is all.

The Witness: Well——

Commissioner Geiger: Do you understand the question?

The Witness: Yes, sir, I do.

Commissioner Geiger: Well, can you answer it?

The Witness: Well, the reason that we stopped—giving the reason why we stopped——

Chairman Geiger: That is not the question; the question is whether you first had in mind a different way of arriving at the value of a well from that that you finally adopted?

Mr. Turner: Oh, no, that is not the question at all.

Commissioner Geiger: That is my understanding of the question.

Mr. Turner: That is not the question, so we are all mixed up. The question is whether or not Mr. Butler quoted the witness correctly; that is all he wanted.

Commissioner Geiger: Oh, well, I am stepping back of the quotation; make it short and snappy, Mr. Butler.

The Witness: Yes, sir.

Q. What do you say, that I quoted you correctly?

A. Yes, sir.

Commissioner Geiger: Now, what is your desire at this particular moment?

Mr. Turner: That we recess.

2016

[fol. 2078] Q. Very good. I think you said that you assisted in the recent or present East Ohio and Hope inventory and appraisement. I think that was as of December 31, 1929, the same fixed date as this. How did you depreciate gas wells there?

A. In those valuations I did not work on the gas wells at all. I worked on the pipe lines, meters, services, distribution lines, not on the gas wells.

Q. You don't know how they were depreciated?

A. I know how they were depreciated.

Q. How were they depreciated?

Mr. Turner: I object. Ford, Bacon & Davis have offered no depreciation on gas wells in this case. We have offered no depreciation on gas wells by Ford, Bacon & Davis, and this witness has so testified.

Chairman Geiger: Objection overruled.

Mr. Turner: Note our exception.

The Witness: Shall I answer?

Mr. Turner: Yes, you should answer.

The Witness: The material in the gas wells was determined on the basis of the physical deterioration of the casing and tubing. That is my understanding. The construc-

2017

[fol. 2079] tion cost was determined on the basis of the amount of gas, the remaining life of the gas in the ground. In other words, we used the depletion method.

Q. That is what you used in the United, in this case that is pending in West Virginia, the depletion method, wasn't it?

A. We did in the case of the construction cost, yes, sir.

Q. Yes, and that is what you started to do in this case; that is what you began your study for, wasn't it?

A. No, in this case we had specific information not to value the gas lands and the leaseholds.

Q. Who gave you that specific information? I suppose you mean direction?

A. Yes, sir, direction. I beg your pardon.

Q. Who told you that?

A. Our client, the Ohio Fuel.

Q. I know, but what individual?

A. I got my instructions from our office. I don't know.

Q. Who from your office told you that?

A. Let me see. Our Vice President, Mr. Towers.

Mr. Butler: All right. Bring Towers, and then we will find out. You may smile all you please.

Mr. Turner: Well, I just am not going to bring Mr. Towers to examine into that.

Mr. Butler: Of course, you won't. You thought you would escape this.

Mr. Turner: Oh no.

Q. You say you started—you said this morning you started to make this study?

A. Yes, we did.

Q. Who? Who started? You?

A. Under my direction, yes, sir.

Q. What were you doing? What was the——

2018

[fol. 2080] A. We were getting the initial and final pressures for each individual well, active well, for each individual active well.

Q. Were you out here when you were notified not to use that method?

A. I could not recall. I have been out here and out there so many times that I couldn't say offhand.

Q. Well, this is not very offhand. Did you get it by word of mouth, by letter, by telegram, by telephone? That is all I can think of for the moment?

A. Yes. Well, I believe I got it by telephone and also by written instructions.

Q. Now, produce your written instruction please. Let us have that?

A. I haven't *for* it here.

Q. Well, get it. I assumed you did not have it here?

A. Yes.

Q. Then we will find out about it. Now, as a matter of fact you thought the depletion method was the correct method, didn't you?

A. No, I did not.

Q. You think that is the correct method?

A. Under the circumstances yes, I do.

Q. You mean under the circumstances of getting a positive order from the home office?

A. No. We were asked to make a physical examination—I mean to estimate the physical condition of all properties of the Ohio Fuel production and transmission system, in accordance with the reproduction cost new method, and not to put a value on the gas lands or leaseholds, and that is what we did.

Q. When did you do that work? I think you said September or October or November of '29?

A. No, it took more than that. I couldn't say now. We worked on this valuation practically one year.

2019

[fol. 2081] Q. One year?

A. Yes, sir, it is a very big job.

Q. Well, you were working on this while you were working on the United?

A. No, the United was completed before that date.

Q. So this followed the United?

A. The 1928 valuation of the United Fuel Gas Company, yes, sir.

Q. And you have been working on the East Ohio and Hope while you have been working on this?

A. No.

Q. That followed this?

A. I couldn't recall now.

Q. Can't you try to remember?

A. I don't know that both were done at the same time, that is, valued at the same time. I don't know.

Q. Don't you remember now whether you worked at the same time on this and on the East Ohio and Hope, or whether you did this largely first and then followed with East Ohio and Hope?

A. I believe both of those jobs were done simultaneously.

Q. Yes, and in the one you used the depletion method and in the other you used this?

Mr. Turner: I object. There is no method of depreciation used here for gas wells except the construction inventory.

Commissioner Bricker: Objection overruled. If he knows the answer, let him state.

Mr. Turner: There is no method used here.

Commissioner Bricker: They claim there is something.

Mr. Turner: That is what we are trying to get at.

Chairman Geiger: Aren't there other witnesses?

Mr. Turner: Yes, but this is part of the valuation—just as there have been other witnesses on other aspects.

2020

[fol. 2082] Chairman Geiger: There are other witnesses of Ford, Bacon & Davis who give the value of the gas leases.

Mr. Turner: No, sir. Now, that is what I have been trying to make clear, that Ford, Bacon & Davis have nothing to do with this. Am I wrong on that?

The Witness: You are correct.

Chairman Geiger: You introduced your record of the gas case in West Virginia.

Mr. Turner: Yes, sir.

Chairman Geiger: Was the method of depletion used there?

Mr. Turner: I don't know. All I introduced of West Virginia was the finding of the Commission in West Virginia.

Chairman Geiger: Not the testimony as to how they arrived — it.

Mr. Turner: No, sir.

Mr. Butler: Here is an expert, a representative of a great engineering corporation.

Mr. Turner: Yes, and you have a right to cross-examine him on anything they did in this case, any figures they produced in this case, any theory that they advanced in this case.

Chairman Geiger: Don't you think, Mr. Turner, using the ordinary rules as to cross-examining, a witness who theoretically has been offered as an expert, although he has not so claimed on the stand and is now under cross-examination, he may develop what his general knowledge

and ability and so forth is with reference to things concerning which he has testified?

Mr. Turner: You may develop that for the purpose of establishing his experience and qualifications, but not to be used for other purposes. What they want it here for is

2021

[fol. 2083] to dispute something that has not been presented. We have produced——

Chairman Geiger: Let me ask you this question and see if I am right or not. Do I understand you in trying to develop the value of your property used and useful have not in any place used testimony as to the value of gas leases?

Mr. Turner: We have not introduced that evidence by Ford, Bacon & Davis.

Chairman Geiger: You have, however, introduced it?

Mr. Turner: I don't know whether counsel on the other side will admit it. I claim we have for the purposes of this case introduced it. They claim that I have not.

Chairman Geiger: Overruled.

Mr. Turner: Note an exception.

(Question read.)

Mr. Turner: Now, we have the right to know which one is the other and which one is this.

Commissioner Bricker: All right.

Chairman Geiger: You object to the question as indefinite?

Mr. Turner: Yes, sir.

Mr. Butler: I am always glad to re-inform the learned counsel. The other could mean only the East Ohio and the Hope, and this could be only the Ohio Fuel.

Mr. Turner: I never would have guessed that one. I thought you were talking about the United.

The Witness: You will have to give me a definite company.

Mr. Butler: All right. I will do that. I wish you would listen this time. I am referring to the Eastern Ohio and the Hope on the one hand and the Ohio Fuel Gas on the other.

The Witness: Well, the Hope and the East Ohio, as I

2022

[fol. 2084] understand it, the wells were not deteriorated

on the same basis. I don't know what was done in the Hope.

Mr. Butler: I guess I will have to call for an explanation of that. Read it will you, Mr. Walcutt?

(Answer read.)

Q. Well, the East Ohio you do know?

A. On the East Ohio the well construction cost was determined—I mean the deterioration of the well construction cost was determined on the depletion method.

Q. And that amounted to about 50 per cent. depreciation, didn't it?

A. Something like it. I don't know the exact figures.

Q. What depreciation do you have here?

A. The average depreciation on that well construction cost? We have found the average physical deterioration on the well accounts, both account 211 and 212, to be about 80 per cent. condition.

Q. I am asking about the comparable well construction cost, the thing you talked about a moment ago in respect to East Ohio, where you said there was about 50 per cent. depreciation. Now, give me, the comparable thing here.

A. The comparable condition here will be 80 per cent.

Q. 20 per cent. depreciation?

A. 20 per cent. depreciation is correct.

By Chairman Geiger:

Q. Now, of that 20 per cent. of depreciation, as I understand it, none is attributable to depletion of the well?

A. No, sir, Your Honor. We made a physical examination of the material in the well.

Q. I see.

A. Only.

Q. Suppose the well in which the material had been placed had gone out and was no longer producing gas,

2023

[fol. 2085] where would you put it?

A. If your well is not producing gas, it won't be in our valuation, if it is not a used and useful well.

Q. Suppose it is producing 25 per cent. of the gas it produced at the time it was first taken in, then what do you do about it?

A. Well, we have taken all wells that are active in our valuation, and I have not examined individual wells.

Q. Mr. Antonelli, Ford, Bacon & Davis are very able engineers, aren't they?

A. They are considered so.

Q. And do you believe them to be so?

A. Of course, I do.

Q. Well, just why here in Ohio, as you say, at the same time, did this great firm of engineers use different methods for depreciation of well construction?

A. Well, the only reason that I could give is because we were following strictly reproduction cost new method, just to find, to estimate, the physical condition of the property.

Q. Why didn't you follow it in the other case? I want to know why you——

A. I couldn't answer why we didn't follow it in the other case, because I don't know. But this is the proper method to use.

Q. This is now the proper method?

A. Yes, sir.

Q. And you think you are not using the proper method in the other case?

A. Under the circumstances I believe we are.

Q. What are then the peculiar circumstances that make the other the proper method?

A. Well, I believe they had taken into consideration there the leaseholds and the gas lands; we are not making a valuation of the gas lands here.

Q. What has that got to do with the depreciation of the production cost—well construction cost?

A. We couldn't mix depletion with depreciation. Here

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[fol. 2086] we are trying to find out the physical deterioration of the wells.

Q. Down in the United you used the depletion method for depreciating your well construction cost, didn't you?

A. Yes, we did.

Q. Were you wrong there?

A. I believe out there they submitted at the same time a valuation on the gas lands. I am not sure about that.

Q. Well, of course, you are not going to have a valuation of gas lands here, too; if you will just forget the gas lands and let somebody else take care of that——

Mr. Turner: We object to that instruction of the witness, because it is not proper.

Mr. Butler: Mr. Antonelli will not follow my instructions anyway. He is too able a witness to do that. And if you need to have me instruct him, I will tell him to just go ahead and pay no attention to what I say.

The Witness: Well, I might repeat my reasons again, that we have followed here the reproduction cost new theory. That is one reason. And the second reason is we did not make any valuation of the gas lands.

Q. Did you find out that your depreciation in Ohio and United was leading you to about 50 per cent. depreciation, whereas this method leads you to about 20 per cent. depreciation? Is that one of the reasons, Mr. Antonelli?

A. No.

Q. That did not enter into it?

A. No, not at all.

Q. Why then, did you start in this case on the depreciation method and start on your studies if you did not think it was right? Tell the Commission that.

A. I believe we stopped because we found out we were not going to put any value on the gas lands. I don't know

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[fol. 2087] personally. You will have to ask somebody else.

Mr. Butler: Then I will, if they come here. I am not criticising on that.

Mr. Turner: You might call me on that. I might have had something to do with it.

Mr. Butler: I rather think that you and your associates did. I think you found that you did not want 50 per cent. depreciation.

Mr. Turner: No, I think I found what I thought the law was, and we will fight it out with you any time you want to.

Mr. Butler: When you get that letter of instructions in I think it will go a long ways toward clearing it all up, and I think there is no need of our going further then on that until we do get it.

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[fol. 2088] And also—

P. ANTONELLI, recalled for further cross-examination, having been heretofore duly sworn, testified as follows:

Cross-examined by Mr. Butler:

Q. Mr. Antonelli, Mr. Turner tells me you have returned with some things; have you the letter directing you in respect to the appraisement of the gas wells?

A. I made an attempt to find the letter but I must have been mistaken as to having written instructions from Mr. Towers. I recall that I was in Charleston and he called me up from New York to come back and to this work and I thought he wrote me. I will make a further investigation. However, when I went back to New York Mr. Leroy was th[redacted]nd Mr. Towers, and I took some notes from Mr. Le[redacted]s to what to do, and I found among my papers that sheet of paper that I had taken notes on, and I had so many instructions at that time, you know I could not—I might have—I will make an attempt to find it, but so far I have been unable to find anything in regard to the instruction on the depreciation of gas wells. I might read to you my instructions from Mr. Leroy if you wish it.

Q. Yes, all right, we will hear it.

A. He told me first to make a study of the observations of available casing and tubing that has been used under all conditions. That is No. 1.

2. To make a study of the cost of maintenance of the Company's wells.

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[fol. 2089] 3. Determine the number of wells completely cased and the average open flow.

4. Obtain opinion of Fuel Men as to the condition of the wells.

And this was my basis information, and from here on the men worked in the field to get all the information that we needed to condition the wells.

Q. Yes, but, Mr. Antonelli, I was inquiring about the direction to you to suspend your depletion study and pursue the method that you did pursue. That is what I am inquiring about. I am not interested for the moment in what anybody else might have told you except this particular thing. You have told us that you started to make the depletion study in this particular matter and that you stopped

it because the company directed otherwise. Now I tried to find out how the company had advised you and if I understood you, you finally concluded that your superiors had conveyed the Company's information?

A. Yes, sir, that is correct.

Q. Well, now, who conveyed it to you?

A. Well, Mr. Towers, who is the vice president and general manager of the valuation and report department, under which department I belong. Mr. Lerch, who was in charge of the valuation, I believe, and Mr. VanPoole, of the company, was present at the time.

Q. Well, where did they give you that direction.

A. Well, I received directions several times during a week; the first direction I received over the telephone while I was out in Charleston.

Q. From whom?

A. From Mr. Towers.

Q. And what did he say to you?

A. Well, he said that Ford, Bacon & Davis had decided

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[fol. 2090] to use the depreciation method of determining the condition of Account 211 and 212, which are the well accounts.

Q. Well, then he did not tell you that the Company had directed the change—or did he?

A. Well, not over the telephone, I don't think so, no.

Q. Well, when did he tell you that, if ever?

A. Well, I have certain correspondence that stated that the Company has directed Ford, Bacon & Davis that they should make a physical examination of the wells and limit ourselves only to the physical property of the wells and not to the gas lands.

Q. I shall be very happy to see those letters.

A. Yes, I will do my best to get them.

2304

[fol. 2091] Q. Mr. Antonelli, you have said that you made a partial study of the depletion of the wells. We should like to have you bring in that study and let us see how far you progressed in that.

Question objected to by the Columbus Gas & Fuel Company.

Chairman Geiger: Why wouldn't that be proper cross examination, Mr. Turner?

Mr. Turner: Probably it is. I may be wrong in my objection. But it did seem to me that after Ford, Bacon & Davis have testified that that was not as fair an investigation as this or as fair a plan as this other plan, and that it was a part of a plan that involved the valuing of leaseholds as a part of it, that it was not pertinent here, because this firm did not value the leaseholds as a part of their appraisal. They valued only the physical property.

Chairman Geiger: It would seem proper.

Mr. Turner: I may be mistaken.

Chairman Geiger: I think we see reasons why it may be proper cross examination, without going into detail. Your objection will be overruled and your exception may be noted.

Mr. Turner: I was thinking of the substance, rather than the other which is in your Honor's mind.

The Witness: Mr. Butler, I will have to look and find it. Those papers were not kept with our regular files. But I will bring all I can, or I will send it to you. I am sure it won't be of much use to you, because it is not complete.

Q. I am sure when you bring it, you can tell us about it.

2305

[fol. 2092] if you find it. Somehow I have a feeling——

Mr. Turner: Is that all a part of the question?

Mr. Butler: Yes, that is all for the moment.

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[fol. 2093] J. Paul Blundon further testified:

Q. Mr. Blundon, have you made a study of the accrued depreciation of the gas wells of the Ohio Fuel Gas Company?

A. I have.

Q. Including the equipment in the wells?

A. I have.

Q. Is that the study that appears on page 9 of study Exhibit No. 74?

A. It is.

Q. Will you please explain that study and how it was made?

Mr. Turner: I think our agreement about objection and exception and motions to strike is broad enough to cover

everything in this exhibit 74 that you are inquiring about.

Commissioner Bricker: Yes.

The Witness: This study is a study of the depreciation or depletion of the value of the well as a unit as is measured by the decline in rock pressure of the individual wells, weighted by depth. We made a thorough examination of the original records of the company and obtained therefrom the original rock pressures of the wells as they were drilled, and also obtained therefrom the maximum rock pressures recorded in the last half of the year 1929, and each well was depreciated in accordance with this ratio, weighted by the depth of the well. This was done separately for each well and they were combined by districts, as is shown on page 9, where the first column shows the district or field, the second

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[fol. 2094] column, the number of wells in that district, the third column, the average age of the wells in years, and the fourth column, the per cent of depreciation. The fifth column shows the average percent depreciation per year.

Returning for a moment to the fourth column, the depreciation over all is 58.1138 per cent, making a condition of 41.8862 per cent.

In the case of a small proportion of the wells, there were no rock pressures available. In a few cases in 1929, there were no rock pressures available. And in another few instances there would be no 1929 rock pressures available. But we had the 1928 and 1930 rock pressures. In these latter cases they were interpolated.

The data was then assembled by districts for the wells for which we had the necessary data, and the resultant per cent of depreciation applied to the wells for which we had not the data. This method gives a slightly higher percentage than would obtain if all of the records were available, a slightly higher percentage of condition than would obtain if all of the records for wells were obtainable, because the records were mostly missing in the case of the older wells, which would naturally be in a lower percent. condition.

What I have said referred to the gas well construction account. The gas well equipment account is depreciated to the same extent, because of the fact that the well is a unit. It is true that a portion of the equipment can be recovered, but the value of that equipment must be offset by the cost

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of recovering it, the cost of salvaging it, after it is recovered, [fol. 2095] and the transportation to a central point, for use at some other point in the gas company's operations, and they have more than offset the value of the equipment that remains.

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Mr. Huffman: May we adjourn at this time?

[fol. 2096] Q. Mr. Blundon, at the close of the hearing yesterday afternoon I think you had completed your explanation of page 9 of Exhibit No. 74 on the subject of gas well depreciation?

A. Yes, sir.

Q. The method that you described, is that the method usually referred to as the rock pressure depletion method?

A. It is.

Q. Do you know of any other rate case or cases in which this method has been used and approved?

A. Yes, sir, it has been used quite generally in the West Virginia gas rate cases, and it is one of the few points upon which the engineers representing the United Fuel Gas Company and myself agreed, both as to method and results, in the United Fuel Gas case.

Mr. Turner: The record, Mr. Davies, shows that this witness did not make the gas well depreciation, does it?

The Witness: Yes.

Mr. Turner: All right.

By Mr. Davies:

Q. Mr. Blundon, what have you to say as an engineer as to the correctness of this method?

Mr. Turner: Objection; he has not qualified as a geologist.

Mr. Davies: He qualified as an engineer.

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[fol. 2097] Mr. Turner: Well, I have read the record and he stated in another record that he is not a geologist.

Mr. Davies: I thought you said you read the record, and you said he had not made the gas well depletion.

Mr. Turner: I will give you the page of this.

By Mr. Davies:

Q. You made a study of the gas well depletion in the United Fuel Gas Company case?

A. I did.

Mr. Turner: Page 2985, he testified he was not a geologist.

(Question read.)

A. I did.

Q. And as an engineer you have made a study of this rock pressure depletion method?

A. I have, and I have used it in other cases besides the United Fuel Gas case.

Q. What case was that?

A. That was the Monongahela West Penn Public Service Company's gas property, and the State Line Gas Company's property.

Q. And now from your experience as an engineer and your knowledge as an engineer what have you to say as to the correctness of this method?

A. In my opinion it is the most correct method that I know of.

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[fol. 2098] Q. What is your opinion as an engineer as to the relationship between annual depreciation and accrued depreciation?

A. Annual depreciation and accrued depreciation are very closely related, and for any given property the weighter average age of that property multiplied by the annual depreciation should equal the accrued depreciation. Or, to reverse the statement, the accrued depreciation divided by the weighter average age of the property should equal the annual allowance for depreciation in the future. In other words, the two are practically inseparable.

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[fol. 2099] Commissioner Bricker: In your theory, is there a regular depreciation or isn't there an accelerated depreciation shown by rock pressure in the early days of

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[fol. 2100] the flow of the well?

The Witness: Are you referring to gas wells?

Commissioner Bricker: Yes.

The Witness: No, sir. The decline in rock pressure will be practically in direct proportion to the volume of gas that is taken from the field based on Boyle's law.

Commissioner Geiger: Isn't it a fact when a well is first tapped in that there is a very much heavier accumulated

pressure on that that blows off in the early part of the life of the well? Of course you discern it in some way, but is there a fixed annual depreciation that you can start in at the beginning of the well and run it to its last day of utility?

The Witness: The initial drop in rock pressure will be in direct proportion to the volume of gas that comes off. If the gas blows off in the air and a large amount is lost, of course that causes a drop in rock pressure. But assuming that no other wells are drawing from that particular territory—that it is virgin territory—a new well drilled in—the drop in rock pressure would be in proportion to the volume of gas drawn off or let out of the well.

Commissioner Bricker: What has age to do with the matter of depreciation then?

The Witness: In this instance here it is merely based on the average use that they are making of the wells; in other words, if they would draw more gas the next five years it will depreciate faster; if they draw less gas in the next five years it will depreciate slower, by the rock pressure depletion method.

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[fol. 2101] Commissioner Geiger: Your theory is that each well that is drilled in, if it were not—if it did not have other offset wells drilled, the gas and the depreciation in the flow of the gas would be in porportion to the amount of gas taken out?

The Witness: Yes, sir.

Commissioner Geiger: And not according to the age of the well?

The Witness: No, sir; this estimated annual depreciation, of course, is based on the rate at which they have used those wells in the past; if they use them more in the future they will depreciate faster; if they use them less in the future they will depreciate slower.

Commissioner Geiger: Now let me ask just one more question. Do you regard the flow of the well in direct proportion to the rock pressure, or is the well which has the depleted rock pressure less valuable as it goes down in a larger proportion than the actual depletion?

The Witness: I don't think I understand all of that question. I will ask the stenographer to read it.

(Question read.)

The Witness: The flow of a well new is not in proportion to the rock pressure obtaining in that well; in other words, it is perfectly possible to drill in a well and get a larger volume of gas with a 200 pound rock pressure than some well with a 500 pound rock pressure; but after that well is in and it comes in at 200 pound rock pressure, we will say, its value as a well depreciates in proportion to its decline in rock pressure.

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[fol. 2102] Commissioner Geiger: That as I understand it, in the more sudden depletion, when the well is new, from 500 to 200 pounds, is probably not a correct index of the value of that well; but when it gets down to 200 pounds and has a constant flow at 200 pounds, then the depreciation in rock pressure below that is in proportion to the gas used and the value of the well is in proportion to that?

The Witness: No, sir, I don't hold that. I think that the value of a well new cannot be measured directly by its rock pressure.

Commissioner Bricker: There is no relation between rock pressure and volume?

The Witness: That is correct, there is no relation between rock pressure and volume that you may get out of the well. In this particular case we have a very fine well with seven pound rock pressure.

Chairman Hopple: When does depletion in a gas well begin?

The Witness: The minute you draw the first cubic foot.

By Mr. Davies:

Q. What you are speaking about here with reference to annual depreciation and accrued depreciation has to do with the physical property—the gas well construction and the gas well equipment and the other physical property?

A. Yes, sir.

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[fol. 2103] Q. Do you agree with the accrued depreciation of the property of The Ohio Fuel Gas Company as found by Ford, Bacon & Davis in this case?

A. I have not made an inspection of all of the property but in my opinion it is bound to be too low. The weighted average of accrued depreciation found by Ford, Bacon &

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[fol. 2104] Davis is 17½ per cent, which, by its nature, must be too low.

Q. Assuming that the weighted average age of The Ohio Fuel Gas Company's property is ten years, explain the relationship of accrued found by Ford, Bacon & Davis with your estimate of annual depreciation as you have just testified to?

A. If their estimate of accrued depreciation is correct then the annual depreciation allowance in the future should be 1¾ per cent. If, on the other hand, my estimation of the annual depreciation allowance is correct, the accrued depreciation should be 36 per cent. In other words, the annual depreciation and accrued depreciation are inseparable, and one must be in proportion to the other.

Mr. Turner: You were asking a hypothetical question as to the ten years?

Mr. Davies: Yes.

Commissioner Bricker: Based upon Ford, Bacon & Davis' study of the present condition of those wells, what would be the life, the average life, of a gas well in Ohio, approximately, if you have it?

The Witness: I can give you that, I think, sir; it will take just a second. 43¾ years.

Commissioner Bricker: And what would be the average life under your set-up?

The Witness: Between 15 and 16 years.

Commissioner Bricker: And has your study revealed to you the annual experience of this company in Ohio as to the length of life of the wells which have become totally depleted?

The Witness: Yes, sir, in a general way, but not par-

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[fol. 2105] ticularly; in other words, I did not make a summary of the wells that have gone out of existence; but from the wells that we found had been abandoned I would say that that was reasonable, 15 to 16 years.

Commissioner Bricker: I wonder if you can make—either you or the representative of the company, I don't care which—a study to reveal what the life of those wells which have passed out of use, the average life, has been; if the company's records would show?

Mr. Seyffert: It is in the record, Your Honor.

Commissioner Bricker: Do you remember what it was?

Mr. Huffman: About seven years.

Mr. Seyffert: Somewhere around seven and a half to eight years. There is something in the record about the average age of the wells and the average life.

Commissioner Bricker: Well, that is what I wanted. That is in your exhibit?

Mr. Seyffert: Yes; I cannot tell which one it is in right now though.

Mr. Turner: He was answering as to the company's exhibit.

Commissioner Bricker: Yes, I meant the company's exhibit when I said "your exhibit".

Mr. Huffman: But that was based upon the actual figures, was it not, of the wells that have been used and that have been abandoned?

Mr. Seyffert: Yes; don't you remember some went back to 1886?

Commissioner Bricker: Yes, I remember that.

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[fol. 2106] Mr. Seyffert: It is in the record some place.

Commissioner Bricker: Well, that is all I have to ask.

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[fol. 2107] Cross-examination:

Q. The depreciation study that you have made on wells is based upon Boyle's law, as I understood you to say, is that correct?

A. I don't think I said so, no sir.

Q. Well, what relations, if any, has Boyle's Law to the rock pressure upon which you base your depletion?

A. Not as rock pressure alone. My reference to Boyle's Law was in answer to one of the Commission's questions in regard to a decline in rock pressure from an original state; in other words, the relationship between the quantity of gas taken out of a well and the rock pressure at any other time.

Q. Well, isn't that the way that you got at the depreciation here, the difference in rock pressure?

A. The difference in rock pressure, yes, sir, but I didn't take into consideration volume that had been withdrawn between the two periods, and when you get to taking that into consideration, then Boyle's Law comes into play.

Q. How can you give an estimate as to the life or remaining life or content of the will if you don't use Boyle's Law?

A. By the assumption that the volume will be the same, volume of gas drawn from the wells in the future will be the same as it has been in the past.

Q. State that again. I don't understand it.

A. The stenographer will read it.

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[fol. 2108] (Answer read.)

Q. Well, now, if I understand what you have said, it is a surprise to me and I would like to have you explain it a little more. As I catch your statement, you judge—I just can't express it because all I understand that to be is that by the past you shall judge the future. Now, when is the exhaustion point reached, in age or in time or in volume?

A. In rock pressure.

Q. Just explain it a little bit more carefully to me.

A. You mean explain what I did too?

Q. Yes. Let me get you clear, you didn't use Boyle's Law at all, is that correct?

A. Except by inference. No, sir. We depreciate the wells in accordance with their individual decline in rock pressure.

Q. Well, just give us the formula so we can work it out.

A. We will say well No. 200 came in at 200 pounds rock pressure. December 31st, 1929, it had a rock pressure of 100 pounds. We put that well in 50 per cent condition. If, on the other hand, the well had to come in at 200 pounds, and in the fall of 1929 it had a rock pressure of 200 pounds, as was the case in some instances, the well would be in 100 per cent. condition.

Q. No depreciation at all?

A. No depreciation at all.

Commissioner Geiger: Well, how do you make that out? Suppose the well had discharged gas over a period of a year and the rock pressure had jumped up, do you mean to say the well was just as valuable as it was when it was started?

The Witness: Well, of course, my assumption there is probably rather theoretical, because the rock pressure does

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[fol. 2109] decline with the drawing of gas. If, on the other hand,——

Commissioner Geiger: Really what affects the value of —well is the amount of gas taken out?

The Witness: Yes, sir.

Commissioner Geiger: Not rock pressure at all. That is, you may have a rock pressure and that rock pressure may be affected by drilling other contiguous wells?

The Witness: Well, for any particular individual well, the decline in rock pressure is affected by the amount of gas that has been taken out of it.

Commissioner Geiger: But the fact that it remains at a hundred pounds rock pressure doesn't indicate that as long as it continues at a hundred pounds it has no element of depreciation?

The Witness: No, sir, except that is a hypothetical question. If any appreciable amount of gas is drawn out of the well, there will be a decline in rock pressure. Now, I don't mean by that there are not freaks, because there are, where you will have a well, that after being used ten or twelve years—well, after being used two or three years, I will put it that way, will have a higher rock pressure than that shown originally. Sometimes that is accounted for by error in reading or other things. A few of those freaks occur.

Q. Well, what I would like to get at, if possible, is when you say that this well that came in at 200 pounds and shows 100 pounds on 12-31-29, has a 50 per cent life; what is it that tells you that 50 per cent of the life is gone? Why can't we say that 75 per cent of the life is gone?

A. Because the decline in rock pressure is a measure of the amount of gas that has been taken out of the well ex-

4411

[fol. 2110] pressed in percentage of the total gas that was in the well.

Q. Well, who says that? Isn't there some law in physics that says that?

A. Because when you bring that total volume of gas in there, it puts it under Boyle's Law.

Q. I just wanted to get whether or not you, in your assumptions here, have adopted any law of physics? If you have, I want to know what it is.

A. When you bring volume into play, why, it immediately brings into play Boyle's Law.

Q. Then did you or did you not use Boyle's Law in your gas well depreciation?

A. We did in effect, but not in practice, because we didn't go into the volumes that had been drawn out of these various wells, but depreciated them in accordance with their decline in rock pressure.

Q. You graduated along about 1915, did I understand you to say, or '13?

A. '15.

Q. So that the income tax was working at the time that you began practice. We had income tax at that time. You weren't admitted to practice prior to an income tax in this country, were you?

A. I don't know when the income tax began. Up until 1924, you see, I was a state employee and not subject to income tax, so it didn't bother me.

Q. What I am getting at, is to develop whether or not the use of gas pressure didn't first come into play after the adoption of the income tax law and for the purpose of income taxes only; isn't that true?

A. I couldn't answer you in regards to that.

Q. Well, in your studies in geology or physics, did you ever run across the application in any publication prior

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[fol. 2111] to 1910 of the use or application of Boyle's Law pressure test to gas wells?

A. I did not.

Q. Did you ever hear of Professor Edward Orton?

A. No, sir.

Q. Has Boyle's Law been questioned by any of the scientists? Leave out the question of gas wells for the present, just see if the law itself has ever been questioned.

A. I expect it has.

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[fol. 2112] Q. Do you know Rignault?

A. I am not acquainted with him.

Q. Are you acquainted with Watson's Physics?

A. I don't know whether I am or not. I can tell you in just a second if I may examine it. No, sir, not as such.

Q. I want to see what you think of this statement of Professor Edward Orton, who was State Geologist here, in his Survey of 1890. He said, "The cause of rock pressure of gas and oil wells is a subject upon which our best

authorities have not been in haste to commit themselves by offering definite and comprehensive theories to account for the facts. "Three causes have been suggested as adequate to explain the results." I will read the causes and eliminate the rest of it. "First, the gas produces its own pressure. Second, the weight of the overlying rock produces the pressure of the gas. Third, pressure is due to a water column that is behind the gas and oil."

Now, do you use any one of those three theories in your work here in this case in arriving at the gas well depreciation or present conditions of the gas wells?

A. I have never gone into those theories, sir, that have applied Boyle's law by implication in the decline—in depreciating the wells, construction and equipment account, according to the decline in rock pressure.

Q. Professor Orton doesn't even mention Boyle's law. He is talking about the pressure?

A. Naturally, he would not, because he is talking about what creates the pressure. Boyle's law is the effect or behavior of the pressure after it is created.

Q. Assuming that there is a pressure due to certain

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[fol. 2113] things——

A. That there is a pressure.

Q. We have to limit it right there, that there is a pressure?

A. Yes, sir.

Q. And if there is any water interference, that throws Boyle's Law out, doesn't it?

A. Oh, I could see how it might, yes, sir.

Q. There is usually water interference in practically all of the gas fields, isn't there?

A. Oh, I wouldn't say that.

Q. Generally?

A. There is some water interference.

Q. And the porosity of the sands has a great deal to do with pressure, has it not?

A. It has something to do with the rapidity with which the pressure will build up after the well is blown off.

Q. In order to interpret pressure, you would have to know the stand and history of the well, would you not?

A. No, sir; I don't think so.

Q. Do you know anything about the porosity of these sands underlying the Ohio Fuel Gas Company's properties?

A. No, sir.

Q. You don't even know what sand it is, do you?

A. Oh, I know in a general way what sands they are in. Clinton and various sands.

Q. What else?

A. Berea, Big Injun, Clinton——

Q. Spell that.

A. C-l-i-n-t-o-n.

Q. Oh, I thought you gave that first. What other one?

A. I could give you a list of them, I suppose.

Q. You have no Clinton sands in the West Virginia case at all, have you?

A. I don't recollect any, no, sir.

Q. There wasn't any in your gas well depreciation; you

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[fol. 2114] experienced no gas in Clinton sand, did you, in the United case?

A. I would not state that positively offhand, sir, because there are 1,580 some wells in there.

Q. Well, if you find it to be other than that, won't you call our attention to it?

A. Yes, sir.

Q. Now, going back to Doctor Orton and referring to these theories, "The Gas produces its own pressure." He says, "The first theory doubtless has elements of truth." Then as to the second theory, which was the weight of the overlying rock producing the pressure of the gas, he says, "The second explanation on that refers the pressure of reservoir gas to the weight of the superincumbent rock appears to have found the largest share of popular favor, but the theory is certainly unsound. It gives way when subjected to the slightest examination." Isn't that the theory you necessarily had to rely upon in your gas well depreciation?

A. No, sir, it is just the reverse of that.

Q. Tell us what kind of pressure did you rely on?

A. I didn't rely on any. I relied on the application of Boyle's Law. But my own personal idea of those three theories which you have outlined there, which has no connection with the application of Boyle's Law, is that the gas produces its own pressure, except possibly in the shales.

Q. It doesn't produce any pressure in shales, does it?

A. My idea is and my opinion is that the gas is generated in the shale from the contact of the salt water with the shale.

Q. Do you know an author by the name of Brown, whose book was published in 1924, "Valuation of Oil and Gas Lands," by McGraw-Hill Company?

A. No, sir, I don't.

4416

[fol. 2115] Q. You know the McGraw-Hill Company generally?

A. Yes, sir.

Q. They publish a good many scientific books?

A. Yes, sir.

Q. Is this a correct statement of your understanding of the application of Boyle's Law: "Computation based on a strict application of Boyle's Law during the early life of the field are materially in error. The actual production is twice as great as that indicated by Boyle's Law?" He was speaking of the McKeesport Field at that time?

A. Is that the end of the question?

Mr. Turner: Yes.

(Question read.)

A. I don't know how he applied Boyle's Law. That is not my understanding of the application of Boyle's Law.

Q. Wouldn't the application of Boyle's Law be affected if more than one well were drilled tapping the same sand in the same neighborhood.

A. That would affect the quantity of gas that you would get from a well with a given drop in rock pressure.

Q. Wouldn't it affect the rock pressure of both of them?

A. It would not affect the rock pressure. The depreciation by rock pressure in both of them would be shown by its actual decline. But you would get a less volume of gas for a given per cent. of decline in rock pressure. But the decline in rock pressure would still indicate the total quantity of gas from that well that you would be able to recover.

Q. Suppose we could find a gas well in the Ohio Fuel Gas Company's property that has, say a half a million, and

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[fol. 2116] that is five years old——

A. Let me get you correctly. That is a half a million open flow per day?

Q. Yes, half a million open flow. And we find another one that is just drilled that has the identical open flow. How do you depreciate those two wells, or how do you treat them in the matter of depreciation?

A. Will you please advise me of the rock pressure of both of those wells when they were originally drilled in and their present rock pressure?

Q. Yes, they are the same—no, I should say that one is 200. These are purely——

A. Yes, one is two hundred.

Q. The original well drawn in the five year old one; and the other one is—they are both now a hundred?

A. The five year old well was originally two hundred; is now one hundred.

Q. And the brand new well is a hundred and is producing a half a million?

A. What did it come it at?

Q. And that is what it came in at, just in.

A. The first well would be depreciated 50 per cent. The second well would be put in at a hundred per cent condition.

Q. And we are getting the same amount of gas from each one?

A. Just a second. Let me explain why that is, if you don't mind.

Q. Oh, sure.

A. You will have gotten from the first well, 50 per cent. of all of the gas that you will get out of it.

Q. That is what I want to get at, Mr. Blundon. Pardon the interruption.

Mr. Davies: Let him finish.

Mr. Turner: I am going to let him, but I want to get him

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[fol. 2117] right there to call his attention——

Mr. Davies: Let him finish and then call his attention to it. Be fair to the witness.

Mr. Turner: Oh, I am trying to be fair to the witness.

Mr. Davies: Let him explain.

The Witness: For the reason that you have gotten from the first well 50 per cent of the total gas——

Q. Who says so? Pardon me, that is what I wanted to get at. You simply assume that, but under what law?

Mr. Butler: Now, Mr. Turner——

Mr. Turner: I won't interrupt again, but I wanted to get that point to you so that you would cover it.

The Witness: The first well, the five year old well, would be put in 50 per cent. condition; the second well would be put in 100 per cent. condition. The same amount of gas would probably be recovered in the future from each of the wells, but each well is considered as a separate entity, and you have obtained from the first well 50 per cent. of the total amount of gas that you will get out of the well. The second well you have yet to recover 100 per cent. of the gas that you will get out of that well.

Q. Under what experience do we find the answer that you have given, that 50 per cent. of the [illegible]well has been withdrawn?

A. That is the general experience of Boyle's Law.

Commissioner Geiger: Now we have talked about Boyle's Law. I am familiar with it in a general way. Give it in a general way and we will see if we understand.

The Witness: Boyle's Law is the law of gases and can be stated in several different ways. But for the purposes of 4419 [fol. 2118] this case, we will say that for any given container at a constant temperature, the pressure will vary in direct proportion to the volume, or to state it the other way, the volume will vary in direct proportion to the pressure, and then you have a variation of pressure also. It can be stated the other way around.

Commissioner Geiger: What is the variation?

The Witness: It is in direct proportion. If you have a given volume of gas at a constant temperature at a hundred pounds pressure and you increase that pressure to two hundred pounds, the volume will be one-half.

Commissioner Geiger: Double the capacity of the retort.

The Witness: Yes, sir.

Commissioner Geiger: Well, you speak of temperature. Of course, temperature would probably not affect a gas well.

The Witness: No, sir, but that temperature is in Boyle's Law.

Commissioner Geiger: Yes, but it would be uniform for gas.

Q. All gases do not obey Boyle's Law, however, do they?

A. No, sir, there is a slight variation in the behavior of natural gas to Boyle's Law depending on the relative amount of the content of butane, methane, ethane, and so forth, in the particular gas under consideration.

Q. And without the proportions of the various constituents of the natural gas, you could not tell with much accuracy how Boyle's Law was going to behave?

A. I was familiar with the general constituents of the Ohio gas.

Q. When did you get that?

A. I have it from Standard Text, and I looked it up prior

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[fol. 2119] to beginning work on this gas well depreciation. I could probably give it to you if you would like to have it.

Q. Oh, I have no objection. We want to get at all that you used in this thing. What is text book?

A. "Natural Gas" by Lichty.

Q. Who is the publisher?

A. John Wiley & Sons, Incorporated. We will take for instance, samples at Columbus.

Q. From what sands?

A. Natural gas as is furnished here—I couldn't say whether—where the sample itself came from. It is a general reference to an analysis of natural gas samples, and gives reference to them at Cincinnati, Cleveland, Marietta, Springfield, Columbus, Ashtabula, Lima, Piqua, Sandusky, Utica.

Q. Do you know whether or not they are actual samples of gas purchased in Ohio?

A. Why I presume so, sir, they are tests compiled by the United States Bureau of Mines, and are contained in Technological papers, 109 and 158.

Commissioner Geiger: Do you mean to say that that table you read is the table of pressure of an existing well near this point?

The Witness: No, sir. This is an analysis of methane, ethane, carbon dioxide and nitrogen contained in the natural gas at these points, and indicates the degree with which the

natural gas follows a true gas in the application of Boyle's Law.

Commissioner Geiger: You know there hasn't been any gas at Springfield for forty years and I doubt whether there is any in Cincinnati.

Mr. Davies: And there isn't any in Columbus.

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[fol. 2120] The Witness: They are the natural gases there. These are supposed to be analyses of natural gases, not produced, but used there.

Commissioner Bricker: Was there much variation in the gas?

The Witness: In the compressibility of it?

Commissioner Bricker: No, in the component parts of it.

The Witness: Oh, slight; not a very great deal that would affect its ultimate following of Boyle's Law.

Commissioner Geiger: But are you in this position from your statement? You judge the value of the gas wells first based upon the amount of gas that has been taken out; is that correct?

The Witness: No, sir, we depreciate to the gas wells in Exhibit 74 according to the decline in rock pressure. Now, that decline in rock pressure is in proportion to the gas that has been taken out of that particular pool.

Commissioner Geiger: Then things equal to the same thing are equal to each other.

The Witness: Yes, sir.

Commissioner Geiger: You mean it is according to the amount of the gas.

The Witness: Yes sir the rock pressure follows the decline in the amount of gas that has been taken out of the pool.

By Mr. Turner:

Q. Going back to that illustration that I gave you somewhat crudely a while ago, the two wells, one of which was five years old, with an initial rock pressure of 200 pounds,

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[fol. 2121] and one of which has just been brought in, with an initial pressure of 100 pounds; the old one is down now to 100 pounds; and they are both drawing out of the same pool a half a million a day. What have you to say as to

the exhaustion of the gas there or the depreciation of the well?

A. I explained that we would depreciate the first well 50 per cent. The second well would be in a hundred per cent. condition; for the reason that approximately 50 per cent. of the total gas that would be produced in the first well has been drawn.

Commissioner Geiger: Then it hasn't anything to do with rock pressure.

The Witness: Yes, he gave as his illustration that that first well had declined from 200 pound rock pressure to 100 pounds rock pressure, and it was on that basis we depreciated it 50 per cent.

By Mr. Turner:

Q. They are both out of the same pool?

A. Yes, sir.

Q. Both giving the same amount of gas.

Mr. Butler: Different wells, Mr. Turner.

Q. And under your theory, they would both give the same amount of gas in the future?

A. Yes, sir. Of course, that depreciation is treated as separate wells. It is just like a good investment or a bad investment. The investment or cost per M C. F. on the first well will ultimately be a whole lot less than the second well. That is the reason it costs more per M C. F. produced for the wells put in in the older life of a field.

Q. Does depreciation come from volume, from the falling of volume or the falling of pressure?

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[fol. 2122] A. The falling of volume is measured by the fall in pressure.

Q. Well, now, let's see. I don't know that I understand it. Let us take this room as a pool. As they tap the gas in here, and there is plenty of it, the rock pressure would be very high to start with, wouldn't it?

A. Yes, sir.

Q. Now, are you really sure that if we got the pressure at 200 to start with and went a week or two and then got the pressure at 100, that we would have had one-half of it out?

A. That is Boyle's Law, sir.

Q. I understand it is Boyle's Law, but Rignault don't think much of that?

A. I can't help that.

Q. That is the fact, and he is a pretty straight scientist?

A. Yes, sir.

Q. There are other scientists that kick Boyle's Law around a bit, too?

A. I have heard some objections to it.

Q. What sort of pressure did you use, absolute or gauge pressure?

A. We used the pressure you have recorded on your logs.

Q. Those are gauge pressures; those are the exact pressures you used. What did you do with them?

A. We used the pressures you have on your logs.

Q. Didn't change them at all?

A. No, sir.

Q. Didn't add anything to them?

A. Didn't add the 14 to correct to absolute pressure.

Q. How can you get at Boyle's Law without the use of absolute pressure?

A. We assumed they were absolute pressures you had recorded.

Q. They could not be on a gauge?

A. I did not say they were gauge pressures.

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[fol. 2123] Q. They were shown as gauge pressures?

A. I don't recollect whether the column was headed gauge pressures or not.

Q. You knew that they were gauge pressures, didn't you?

A. No, sir, I did not.

Commissioner Geiger: How else would you take the pressure except by gauge, Mr. Turner?

Mr. Turner: We take it by gauge, but you correct it in order to apply Boyle's Law or any other law; you would have to correct it to atmospheric——

The Witness: Yes, you add 14.7 pounds of the pressure to correct it to absolute pressure.

Q. What elevation do you take for 14.7? You have to refer to that book? I have no objection to referring so long as you tell me.

A. It don't make any material difference between elevation at sea level and here. It would be so small that it would be well within the accuracy of your gauge readings. It wouldn't make any difference.

Q. You didn't know it was 14.4, here did you?

A. No, sir. That wouldn't make any difference, not any calcu-able difference.

Commissioner Geiger: What pressure do you permit gas to flow from a well to the transmission plant? It is at the mouth pressure?

The Witness: It depends. It depends on the particular line it is connected to. Some wells have sufficient rock pressure that you can connect them to a high pressure line and get considerable gas from them. Other lines, you have to put five or six pound pressure, the low pressure, maintained at the low point by the suction of the compressor.

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[fol. 2124] Commissioner Geiger: You have a gauge on each well by which you can regulate pressure of the gas flowing from the well?

The Witness: Yes, sir.

Q. Do you think we keep gauges on wells?

A. Well, I mean it can be regulated. That is the Commissioner's question.

Q. I don't but I just don't want any of us to be misled, and I don't think you mean what you say?

A. No, sir, there isn't a gauge kept on each well, but there are sufficient devices on each well so that the pressure can be kept, so that the gas won't flow back in the well by way of a check valve.

Q. Now, would it make any difference if there was an accumulation of gas in the top of a stratum of rock next to a fault where the ground water could gain a little advantage there by way of seepage?

A. It would be possible for the ground water to create an abnormal or irregular condition in the rock pressure of a well.

Q. If there are two wells hitting the same pool, the one put down later and allowed to flow will necessarily cause a decline in the rock pressure of the former, will it not?

A. Yes, sir. Of course, that tends to work to cause a more rapid depreciation of the well in the future than indicated by the decline of rock pressure in the past.

Q. Take the leading geologists as a whole, and don't they hold the theory that you must, in order to apply Boyle's Law, have a knowledge of the sands, and in addition to that, a history of the wells?

A. You mean as shown by the ordinary well load——

Q. Yes, they must know the field?

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[fol. 2125] A. No, sir, I wouldn't say that. That is, it has been applied in rate cases. Now, if you want me to get——

Q. Yes, but piling one error on another don't make right, you know?

A. Well——

Q. We are trying to find out what is right?

A. I would say this, that if you had a thorough knowledge of each individual well and a complete history and record of it, that you probably could make some variations from the general rule which I have followed in this case. Where in a good many instances you could not even get the original rock pressure, it is doubtful if you could get enough information to be of material benefit.

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[fol. 2126] F. H. Lerch further testified on cross-examination:

By Mr. Butler:

Q. Mr. Lerch, we have had some considerable discussion; you may have heard it—and properly enough—concerning the depreciation of gas wells in the Fuel Gas Company's property; what is your method of depreciating a gas well?

A. The method is based upon a consideration of the wells as items of physical equipment and to determine the depreciation from all of the facts which we can gather concerning the condition of the wells as items of physical equipment, and from those facts to determine a percentage which is fair and reasonable in our judgment.

Q. Which, translated, means what?

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[fol. 2127] A. It means that we are endeavoring to place an observed condition upon the wells.

Commissioner Geiger: And which means what?

The Witness: Which means that the observed condition of the physical property is the condition in its physical system as we found it by looking at it.

Mr. Butler: Mr. Antonelli told us that he started out making a study of the rock pressure or depletion and he was directed, as we understood it, by primary orders that started with the company itself, not to complete that study but to proceed with the method that is here employed; what do you say about that?

A. I will have to give you a little bit of history of the deterioration applied to wells in order to answer your question, if I may.

Q. Well, I think you could tell me——

Mr. Turner: What have you got to say about it?

The Witness: If you want to change your question——

By Mr. Butler:

Q. Well, if it comes to that I will change it gladly. Did Mr. Antonelli start with that study of depletion?

A. He started to compile the record of all of the wells to show the decline in rock pressure of those wells, yes, sir.

Q. And he abandoned it?

A. That study was discontinued, I believe, before it was finished, I believe; I am not sure about that.

Q. Didn't you know that he was starting that?

A. Yes, I say we started it, but I did not know whether it was completed or not; I have not checked that up.

Q. You told him to quit?

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[fol. 2128] A. I agreed to the discontinuance of that method, yes, sir.

Q. Well, did you tell him to quit?

A. Why, certainly.

Q. Well,——

A. Well, that is what I said.

Q. Well, did you—how long had he been working on it before you directed him to abandon it?

A. Well, he was doing that work with all of the other work, and just how long it was I don't know.

Q. And the company directed you not to proceed on that method?

A. The company did not direct me not to proceed on that method. They asked me to consider the method of depreciating gas wells as items of physical equipment, and, under the circumstances of our employment and the report which we were asked to prepare, I saw no reason why we should not treat them as items of physical equipment. We have always considered the wells items of physical equipment.

Q. At that time did you know that was for a gas rate case?

A. Well, I won't say that I knew it; I will say I supposed that, or assumed it was, because I knew they were involved in rate cases all the time.

Q. You rather suspected it?

A. I suspected it, yes.

Q. I see.

Commissioner Geiger: What possible depreciation could there be on a gas well, simply regarding it as a piece of physical equipment without considering the decreasing flow of gas; they don't wear out, do they?

The Witness: Oh, yes, they wear out.

Commissioner Geiger: What wears them out?

The Witness: The flow of gas in the casing will wear 2274.

[fol. 2129] them out; these wells make sand at times and throw rocks out through them and throw salt water out and various other things.

Commissioner Geiger: Can you tell us of any case where the abrasion caused by gas forcing sand or rock against the casing has ever worn the casing out?

The Witness: Oh, yes.

Commissioner Geiger: You have them, have you?

The Witness: That is a common occurrence and especially in different fields; some fields are clean and others make sand, but that is not an unusual occurrence.

Commissioner Geiger: Well, don't you shut the pressure off at the mouth of the well so that there would not be any such abrasion by sand and gravel passing rapidly against the casing and breaking it?

The Witness: You put a little sand in a stream of gas that is flowing 100 or 300 or 400 pounds through a restricted area and you are bound to have abrasion; you cannot help it; just like a sand blast to clean buildings with.

Commissioner Geiger: But you do not flow it at that pressure at the mouth of the well?

The Witness: Oh, you would feed it at the rock pressure against the line pressure.

Commissioner Geiger: And that abrasion carried through against the line——

The Witness: As a rule they put drips, etc., at the wells in order to stop that.

Commissioner Geiger: I see; all right.

By Mr. Butler:

Q. Do you have drips on your transmission lines too?

A. Yes, sir; that is to catch the fluid which comes from the

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[fol. 2130] wells and is carried by the higher pressures and condensed or dropped out of the stream of gas as the pressures decline in different parts of the transmission system.

Q. Sometimes salt water?

A. Sometimes, yes.

Q. Salt water is not very good for the inside of pipe, is it?

A. If salt water is permitted to stand inside the pipe — is not very good for it, no sir.

Q. Well, if it just passes by the door, it doesn't do much.

A. You do not notice the effect of it if it is continuing in the stream of the gas.

Q. We were discussing the other day the thought that you had used one method for depreciating the wells down in West Virginia and one for depreciating them in Ohio; is that true?

A. Yes, sir, that is true; that is true.

Q. Which is the better method?

A. I think the method of considering them items of physical equipment and arriving at some deteriorated basis based upon the closest approximation to observation is the best method.

Q. It frightened you a little at the very great depreciation which you found down in West Virginia, didn't it?

A. No, sir, I was not scared.

Q. How much depreciation of the wells did you find there, on the average?

A. I think the condition put on the gas well equipment account, or the gas well construction account, was 50 percent, or a little better than 50 percent.

Commissioner Geiger: For what period of time?
The Witness: Well, that was the then condition.

By Mr. Butler:

Q. That was on the construction?
A. The gas well construction account.

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[fol. 2131] Q. Do you mean the labor?
A. The labor and intangible cost of the wells as they are usually——

Commissioner Geiger: When you speak of 50 percent, that does not mean anything to us unless you give us an estimate of how many years it took to have a depreciation of 50 percent?
The Witness: Well, I could not give you that, Judge Geiger, because that condition is reached by the use of the well over the entire time that they have been producing gas regardless of when it started and when each well started, etc. You see the pressure is a function of the quantity taken from the well, you might say, and it is not a function of time.

By Mr. Butler:

Q. Why didn't you use the same method up here?
A. Well, if I may be indulged, I will have to give you a little bit of history to answer that question, because it brings us back to the same place where you changed your question. I do not want you to think that I am fencing with you. I am simply trying to give you the information the way I think it exists.
Q. Well, I will reserve judgment a little and allow you to go ahead.
A. The first valuations that we made included a valuation of the gas reserves of these companies. When we first started and up to and including the valuations made in 1927 I believe practically all of the reports included some estimates of the value of the gas reserves, or gas leases, and as part of that study we considered the wells as having a value represented by their depleted conditions.
In 1928 when we made the report for the date of 1928, the one you just referred to, in West Virginia, we simply con-

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[fol. 2132] tinued that practice but did not make an estimate of the gas reserves nor a study of the value of the leaseholds but we simply continued the same method of depreciating the gas wells. I would say that we should have changed that method at that time, but we did not.

Q. Well, Mr. Lerch, you testified, as I am advised, down in West Virginia as late as April or May, 1929?

A. On the report prepared as of December 31st, 1928, which I just referred to.

Q. Very good, but you were on the stand, with the right to correct yourself if you were wrong, and you began this appraisement and inventory in question here how soon?

A. I think this report began in the fall of 1929.

Q. In the fall of 1929?

A. Yes; it was stopped and we did not work on it for—oh, quite a little while in the spring of 1930, and then in the summer of 1930 we started to work again and then brought the report down to the end of 1929 for The Ohio Fuel Gas Company.

Q. Well, why didn't you, if you had seen the light, why didn't you advise the litigants and the Commission in the West Virginia case that you did not longer believe the method you used there to be the better method?

A. Well, I do not believe I can answer that question because I have not given it any particular thought, as to whether they should have been advised or whether we were derelict in not advising them. We might have been.

Q. Well, truth telling is individual, isn't it?

A. I think so.

Q. And you were so far committed to that method that

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[fol. 2133] you permitted Antonelli to proceed with the use of that old method for a rather considerable time, didn't you?

A. Yes, sir.

Q. Well, now——

A. I permitted him to proceed with that method, yes, sir.

Q. But why, if you had found it was not the best or the better method of the two?

A. I do not know just how to answer that except to say that we should probably have done it, but we did not. I do not know what else to say to you.

Commissioner Geiger: Well, did you go far enough to be able to estimate that the method that you abandoned would have brought you out at a point where the valuation of the property used and useful would have been less than it was by the method which you followed; is that the reason you abandoned it?

The Witness: I can not answer that offhand, but I am inclined to think the result, as far as we did go, would have indicated a lesser value, a greater depreciation, than we use in the report.

Commissioner Geiger: And was it or not the reason you abandoned it, because you were headed for a lesser valuation than the one you showed?

The Witness: No, sir; I think we abandoned it because it was necessary to make the correction because we did not believe it was the proper basis for deteriorating the wells in the valuation.

Commissioner Geiger: Well, but did you go far enough to realize that you were going to get a lower valuation than you would by the method which you finally followed?

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[fol. 2134] The Witness: I know we knew we would get a lower valuation, yes.

Commissioner Geiger: All right.

By Mr. Butler:

Q. Mr. Lerch, we understood the other day the company itself had directed you to cease using the depletion method and to use the method which you did finally use?

A. I do not recall that that was the case. I know that we discussed this method with the company in order to see whether we could get the data to justify a result based on that method.

Q. With whom did you discuss it?

A. Well, we discussed it with Mr. Weymouth in New York and Mr. Wilson, who was at one time production vice president of the company, and then we discussed it here with the company offices here in Columbus.

Q. Well, Mr. Antonelli, the other day, was going to bring to us if possible the letter which directed him to abandon the first and to use the second method; did you send that letter?

A. I do not remember writing such instructions; I think the instructions were given on the phone.

Q. Oh——

Commissioner Geiger: You are not very lucid in your reason as to why you abandoned the first method unless it was for the obvious reason that you realized that if you followed it through you would land at a lesser valuation. Now that would be a perfectly good reason, if you are frank enough to say it. If there is any other reason you are not very lucid on why.

The Witness: There is no reason for changing it except that the one method was not fair under the circumstances

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[fol. 2135] that do not control now but did control when that method was first adopted, and——

Commissioner Geiger: What was the condition?

The Witness: The condition was because the wells and the leaseholds were considered as a matter of valuation by themselves previously, when that method was adopted. Now we abandoned that method of valuing leaseholds; in fact we discontinued the practice of valuing leaseholds in these reports because they had been disregarded by courts and commissions so much that the expenditure of money was wasted, but we did not make the change, and, as I said to Mr. Butler, I think we were derelict in not making that change in the United Fuel Gas which we completed as of December 31st, 1928.

Commissioner Geiger: Well, do I understand you to mean that you have not in the appraisement that you have submitted here valued leaseholds.

The Witness: No, sir, we have not.

Commissioner Geiger: There is no valuation of leaseholds in the appraisement you have submitted in this case?

The Witness: In this case nor in any other case that I know of that I have had anything to do with since 1926, I think.

By Mr. Butler:

Q. Don't you know, Mr. Lerch, that the East Ohio and Hope inventories and appraisements, going substantially at the same time that this was carried on, Ford, Bacon & Davis did apply decline in rock pressure to the valuation of the wells?

A. By hearsay and general discussion with the man in charge of those jobs, I believe that—I understand that they

did follow that method in the East Ohio; whether entirely

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[fol. 2136] that method or not I do not know. I understand they did not follow it in the case of the Hope or the Peoples Natural Gas Company—I mean The Hope Natural Gas Company, and whether they were working in the Peoples then or not I do not know.

Q. Well, I assume that you conferred with your associates and fellow-laborers of Ford, Bacon & Davis; what was the reason for two appraisements of gas wells in Ohio at substantially the same time, one employing a method which you say you do not or did not longer regard as fair?

A. Of course you understand that when a man gets on the witness stand to testify he testifies to what he believes; he bases his opinion upon the best information he can get and his experience, etc., in forming that opinion. Now I can not testify for the man who made the valuation in the East Ohio Gas Company valuation; I am only testifying for myself in the Ohio Fuel Gas Company valuation.

Q. Well, I suppose, Ford, Bacon & Davis constitutes a single operating unit, don't they?

A. We do constitute a single operating unit but we can not expect a man to swear to something that he may or may not believe. We each have a matter of opinion; otherwise we would not have much competition. Now whether they used the straight depletion method in the East Ohio case I do not know; I know that they did not use that method in the Hope case. That is my understanding—I said "know", but I do not mean that.

Q. Well, why isn't it fair? Why isn't it fair to try to determine the life of a well and wipe out the construction cost at that time? What is wrong about that?

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[fol. 2137] A. It is wrong to—there is nothing wrong about a method of that kind; it is wrong because to include it in an estimated cost of reproduction new it is not a fair estimate of the physical deterioration which has occurred in the well. It is purely a computed depletion of the well.

Q. Well, I thought that among you representative gas utility men there was nothing more settled in your minds than the theory that you could, with all approximate fairness, determine the life of a well by the history of its rock pressure up to date?

A. I think you are perfectly right; I do not think anything has happened to change that.

Q. Well, then why isn't that a perfectly fair method to apply to the construction costs in the depreciation?

A. Because that is purely a question of life and not a question of deterioration by observation. We are combining in a valuation based partly upon depletion and partly upon observed condition two factors; we have endeavored in this report to change the one factor which is not based upon observation and make the report at least without that one inconsistency.

Q. And yet I dare say that you will rather frankly say that in your testimony before the West Virginia Commission you maintained the opposite and said that the surest and fairest way was to depreciate your construction costs through the rock pressure methods?

A. I can not subscribe to that; I do not think that that was either the statement or the inference that could be drawn from the testimony; we did it and there was no question about it. We simply did it and there was no question raised about it.

Q. And if it had been questioned strongly——

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[fol. 2138] A. If it had been questioned strongly we would have qualified it undoubtedly; we did qualify another change which we made in here and every bit of testimony on that subject shows the qualification.

Q. All right. Now I am at sea, and you must sympathize with me, about the method of depreciating the gas well equipment. Now, as I understand, if you could see it you would just determine its present observed condition and that would settle the question?

A. That is right, yes, sir.

Q. But in the absence of that, how do you suppose its condition?

A. We suppose its condition, to use your expression, but I would rather say we observed its condition, by——

Q. Observed though you do not see it?

A. I use the word "observed" advisedly.

Q. All right; I understand.

A. We observed it by compiling or seeing, as representative of the condition of the casing, all of the casing which has been recovered from wells and which is in storage,

which casing has been used either during the entire life of the well, either during the period of its construction and subsequent abandonment because of being a dry hole or withdrawn from the well during some repairing operation or retubing or recasing operation of the well. Now we have considered that as a fair cross-section of what the casing would look like if it could all be pulled out of the wells and laid on the ground for observation.

Now that amount of casing that we saw is probably in worse condition than the casing would be if we pulled it out of the wells because the company's practice is to use

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[fol. 2139] up the best of the extracted casing as they need it either in well lines, field back lines and probably back into wells; so that inasmuch as some of the casing withdrawn from wells was still in stock we got at least a minimum picture of the condition of the casing. And in addition to that we also studied the history of the wells; that is, by history I mean the history of the maintenance and repairs necessary to keep the wells producing. We also studied the extent to which the wells have physical equipment in them, namely, casing and tubing, and we made allowance for the fact that a lot of these wells are simply open holes in the ground for a third or half of the distance from the surface to the producing sand, and that those holes, no matter how long they have been in there, required no maintenance; they were just a hole in the ground; and they were producing gas and would continue to produce gas and based upon a study of all of those facts, which I think gives us a picture for observation purposes, we arrived at the percentage applied to the accounts of gas wells in the valuation.

Q. And were those observations compiled and put into some sort of an exhibit?

A. Yes, sir, the results of those inspections, the locations and amount of pipe seen, and the estimated condition of that pipe, is in the working papers.

Q. Did you know the age of the well when it was abandoned and the pipe taken out?

A. No, sir.

Q. Didn't that amount to anything to you?

A. No, sir.

Q. Why not?

A. Because we were not attempting to form any conclusion based upon age; we were attempting to form a picture

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[fol. 2140] of the condition of the wells as they stood at the present time, in the physical condition that they stand in, brought about by any cause which might be causing deterioration.

Q. Well, in your West Virginia case you not only took into consideration the age of the particular well but also tried to determine the years that it would yet live, the date of its death, didn't you?

A. No, sir.

Q. How?

A. No, sir.

Q. You did not at all?

(No reply.)

Q. That had no relation?

A. No relation.

Q. Merely determined the amount of gas that you would eventually take out?

A. We merely determined the remaining rock pressure in the well. Now we applied that deterioration only to the gas well construction account, the labor and other items in that account.

Q. Ah, yes. How did you down there depreciate your gas well equipment?

A. On practically the same basis that we did here except——

Q. Give me that exception?

A. Except that we penalized the company, and the record shows that we did that. We said that upon investigation we find that an abandoned well is susceptible of recovery of so much of its casing and——

Q. How much?

Mr. Turner: Oh, let him answer.

(Answer read.)

A. (continuing): Of 90 per cent of the casing in the well, and that that casing was found to be in—well, I can not recall the condition, but it was somewhere around 80 per cent

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[fol. 2141] condition of new pipe, and we said that that condition was applied to the gas well construction account—the gas well equipment account, I mean, with the distinct understanding that it was penalizing the company, because the wells were in service, having a distinct period of years ahead of them and by all logic were in a better condition that that ultimate condition. Now in this report we have corrected that also.

Commissioner Geiger: Well, suppose in your observation of a gas well you find the wear and tear upon it and the pipe has not been great, you would not make much depreciation?

The Witness: No, sir.

Commissioner Geiger: But suppose in addition you found that it flowed very little gas, then what depreciation would you make from the fact that it was no longer flowing gas?

The Witness: We would put the condition on it that we have in this case.

Commissioner Geiger: What is that?

The Witness: We would put the condition on it that we have in this case based upon its physical condition.

Commissioner Geiger: Well, but the hole in the ground is not worth anything unless it produces gas?

The Witness: It is an item of physical property producing gas the same as a pipe line is an item of physical property transporting the gas along the ground.

Commissioner Geiger: But you do not quite get my trouble. I am following you; you drill a gas well and that will cost you $10,000, say; you put casing in it and it flows gas for a certain time; you go and make an examination and

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[fol. 2142] find that the casing is in 90 per cent condition but that the gas has stopped flowing there; now what depreciation do you put upon that gas well and its casing—just the physical depreciation of the casing?

The Witness: If it has stopped we do not put it in the valuation at all.

Commissioner Geiger: Well, suppose it is only flowing ten per cent?

The Witness: If it is still used and useful and they are still using it we have to take the condition we find the casing in.

Commissioner Geiger: Irrespective of the fact that it is pretty near played out as a hole in the ground?

The Witness: Yes, sir.

Commissioner Geiger: Well then when do you ever come to the time when you take it out of the appraisement entirely as a producing piece of property?

The Witness: When it is abandoned; when the well stops flowing and is charged off or taken out of the investment.

Commissioner Geiger: Then do I understand that you retain in your inventory the cost of constructing the gas well when—that is, drilling it,—as long as it flows gas at all?

The Witness: In the per cent condition, yes, sir.

Commissioner Geiger: Well, the per cent condition only has reference to the condition of the casing?

The Witness: No, we apply it to the condition of the casing and the cost of construction as a unit.

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[fol. 2143] Mr. Turner: Including the hole?

The Witness: Including the cost of drilling the hole and the casing in the hole. You see we haven't got the construction account in there 100 per cent; we have the construction account which is the labor of drilling the well and the casing in the well in at the same percentage, the same as we have applied a percentage to the pipe line including the pipe and cost of installing the pipe.

Commissioner Geiger: But you do not depreciate the cost of drilling the hole with any reference to the amount of gas that is being produced except when it stops producing any gas at all.

The Witness: That is right.

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[fol. 2144] By Mr. Butler:

Q. Mr. Lerch, when you were examined on May 7th, 1929, in respect to the depreciation of gas wells, I am advised that these questions and answers were made and given. There may be some slight errors, due to transmission, but let me read them:

"Question. Now, in that way you get the value of the wells new. How did you ascertain what the present value of the wells was, the depreciated value?

"Answer. Well, we have been talking only about the one account, the gas well construction account. The cost of

drilling wells we have assumed in this report the same as in the previous report and the same as we have done in practically all cases of valuing natural gas properties, that the gas well construction account was in the same

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[fol. 2145] deteriorated or depleted condition as the remaining rock pressure average for the wells represented by the original rock pressure; in other words, we tabulated the rock pressure of the present wells and averaged the present rock pressure, and compared that with the original rock pressure of these identical wells, and found the wells had a remaining rock pressure of 46 per cent., and we have deducted therefore 54 per cent. of the new value as representing the amount of deterioration in the gas well construction account.

"Question. Then what you have appraised the present value is only 46 per cent.?

"Answer. We have included that amount under the heading of deteriorated cost.

"Question. Do you consider that the fair actual value for the wells as they are?

"Answer. I think it is, yes, sir.

"Question. You have spoken of the gas well construction account. What do you mean by that?

"Answer. Well, the valuation was set up to follow the uniform classification of accounts and the gas well construction account separates the drilling and other expenses incidental to that cost into the gas well construction cost and puts into another account the other items.

"Question. And in valuing both of these accounts, you did it the same way?

"A. We did not deteriorate the gas well material account in the same way we did the gas well construction account.

"Question. How did you arrive at that?

"A. We considered the condition of the gas well equipment, the casing and tubing and other appurtenances, closing in equipment, and so forth, as in the condition which investigation has found this equipment was in when the

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[fol. 2146] well was abandoned. We have gone on the basis that of the amount of equipment in the well at the time of its abandonment, the company could recover approximately

85 per cent. of the equipment, and that the recovered material would be in about 80 per cent. condition, and we consequently gave the condition of 85 and 80, or 68 per cent.

"Question. You did that upon the theory that material could be used to the extent of 68 per cent. of its value after the wells were abandoned in the drilling of other wells?

"Answer. No, not as drilling other wells, but in lines or for some other purposes."

Now, that fairly gives your position there?

A. I think you have read my testimony. There might be a word or two in there, but it does not change the thought.

Q. It is only fair, before I proceed to something else, to ask you if there is anything you want to say in respect to that. You probably said all yesterday that was necessary?

A. I think so. I haven't anything further.

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[fol. 2147] Q. Drilling an offset on the other man's lease will reduce the rock pressure?

A. Yes, sir.

Q. And that automatically, under the system you used in the United Fuel, depreciates the value of all the equipment of that well?

A. The result of using the system in the United depreciates the United Fuel property to the extent that the field itself is depreciated by either their own or contemporaneous production.

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[fol. 2148] Q. Even though the well came in today and some fellows' offset well came in a month from now, you would depreciate that well by the drop in the rock pressure under your other system used in the United Fuel, wouldn't you?

A. Yes, sir.

Q. Every time you make an income tax return for your producing wells, you do make an estimate of the depletion of the well, which is recognized by the government in a credit given to you in the value of your property on account of its depletion which has occurred during that year; don't they allow that in gas wells, mines, copper mines and everything that has a natural tendency to reduce the material if it is being operated.

Mr. Turner: Wasting assets, the Commissioner has in mind.

Chairman Geiger: Yes.

A. The allowance is, of course, not exactly that. They give you more or less a fixed allowanve which you elect to take, and you give them all the dope that you have got and you talk to them and their geologist, who is supposed to have the object in view of fixing something that is fair to you, and they put their own estimate or value upon the information available.

Q. Answer this, and it won't take so long; isn't it a fact that every year a gas company which owns gas wells, in making its returns to the Treasury Department for the purposes of taxation and the income tax, does take into account depletion that has occurred during that year in its property?

A. Yes, sir, in some form or other they make an allowance for depletion of wasting assets.

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[fol. 2149] Q. Then it was *has been* found in tax cases and might be found in this case?

Mr. Turner: May I ask a question, Your Honor?

Chairman Geiger: Yes, sure.

By Mr. Turner:

Q. Isn't the measure fixed by the government itself, the measure of depletion?

A. Yes, sir.

Q. And isn't the formula of depletion the formula prescribed by the Treasury Department?

A. Yes.

Q. From which you may not depart; is that correct?

A. Yes, sir.

By Chairman Geiger:

Q. Well, could you apply your formula for the purposes of ascertaining the value of your property after a given number of years of depletion?

A. No, sir.

Q. It would not work?

A. No, sir.

Chairman Geiger: All right.

By Mr. Butler:

Q. Well, this depletion by the government has for its basis declining rock pressure, hasn't it?

A. Just exactly what it is I don't know. I know that you can take your one basis, which is practically based on decline in rock pressure—you can take a fixed allowance, but you are limited as to how much you can take. Now, nothing that Judge Geiger has asked to be compiled, or if it could be compiled, has any bearing on that point.

Q. In your judgment?

A. In my judgment.

Q. Well, you built up your inventory and appraisal in the United case around rock pressure and the depletion or decrease of rock pressure; now, when did you discover that you were wrong about that? When were you really educated? That interests me greatly.

A. I don't remember; I imagine it was some time last

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[fol. 2150] fall or last summer that we decided to make this change. I don't know just what you mean by saying that I was educated. The use of that term doesn't mean very much to me. But we decided to make that change, I think it was last fall some time.

By Chairman Geiger:

Q. Was it before or after you had testified in the case?

A. It was after I had testified in that case. The last testimony there was in March, 1930.

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[fol. 2151] Q. As I understand you, the well construction account was depreciated in proportion to the condition of exhaustion as indicated by the rock pressure decline?

A. Yes sir. Did I understand you to say gas well construction account?

Q. Yes.

A. Yes, sir.

Q. And you depreciated that as your final conclusion to 46 per cent?

A. We depreciated it, yes, by deducting 54 per cent.

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[fol. 2152] Q. How did you get at the per cent?

A. From a summary of the rock pressures, original and present, of the wells the company had.

Q. You went over the rock pressure records of the existing wells?

A. Yes, sir.

Q. All of them?

A. Practically all of them.

Q. Didn't you say 75 per cent?

A. I think I said more than 75 per cent.

Q. And was that of wells in any one field?

A. That was the wells in all the fields.

Q. You are certain that you went into all the fields? I mean the result covers the entire property?

A. Yes, sir, the results would cover the company's property as a whole.

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[fol. 2153] LEON J. PEPPERBERG further testified:

Q. Mr. Pepperberg, I hand you what has been marked as Company Exhibit 183 and ask you to state whether or not that has been made under your supervision?

A. It has.

Q. I will ask you whether this exhibit, Company Exhibit 183, shows the application of Mr. J. Paul Blundon's theory of depreciation of gas wells to specific gas wells of The Ohio Fuel Gas Company?

A. Yes, sir.

Q. Now, calling your attention to the upper righthand corner, I will ask you to direct your attention first to the outline of Section 3, Washington Township, Holmes County, Ohio, that is one square mile, is it not?

A. It is.

Mr. Butler: Where is that?

Mr. Turner: In the upper right hand corner.

Mr. Butler: I see.

Q. Now, I will ask you to state how far apart wells 4009 and 4252 are?

A. 1,260 feet.

Q. Now, wells 4307 and 978 are about how far apart there?

A. Well, they are less than—they are about an eighth of a mile. That would be about 650 feet.

Q. Mr. Pepperberg, I want to take, referring to these first two, 4009 and 4252 take 4009 if you please, and trace Mr. Blundon's depreciation figures on that well, and show what Mr. Blundon's figures applied two years later to that
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[fol. 2154] same well would show. You go ahead in your own way and then show the percentage of depreciation which will be found at the bottom.

A. Well Number 4009, had an initial rock pressure of 1,120 pounds. The highest——

Q. Now, we are beginning at the upper lefthand corner of the map or the exhibit. Initial pressure shown there is 1,120 pounds, the 4009 is shown on the blue line there.

A. The highest pressure recorded in the last part of the year, 1929, as shown on the chart at the point that is marked "J. Paul. Blundon Basic Date" for that well was 300 pounds. Connecting those two points, connecting the initial rock pressure with the 1929 base we get a gradient shown in there in a dashed red line, marked "A prime".

Q. That is the second line from the top of the graph?

A. Yes.

Q. Go ahead.

A. Extending that line then in its same slope to the zero pressure, rock pressure, which is found on the lefthand side of the chart, we have what might be termed the estimated future remaining life of that well, based on rock pressure.

Q. And would expire about when?

A. A little more than four years after Blundon's basic date.

Q. All right, now, go ahead and show what a pressure taken later on the same well shows?

A. In September, 1931, the rock pressure of that same well was 308 pounds. I connected the initial rock pressure of well 409 with line "A double prime" to the point in September, 1931, and extending the future of that slope to the zero pressure line, it shows that the well, if calculated on the point two years later would have had an indicated
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[fol. 2155] future life, according to the Blundon theory, of three years more than that of his assumed date of 1929.

Now, to follow the condition of the well, dropping to the lower part of the chart that has the percentage mark on

the lefthand side instead of the rock pressure, you will find 4009 directly beneath the 4009 in the upper chart, the initial point, and in percentages on the Blundon basic date, you will find that 26 per cent, the point that corresponds to the 300-pound pressure above.

If you don't follow me, I wish you would ask me, because this is on an "A prime" line in the lower chart beneath the portion marked "Well Condition". In other words, that 4009 on the Blundon basic date would have had a condition of 26.8 per cent.

Projecting that future merely shows where it would go to extinction following out this chart.

Taking the 4009 at the lower lefthand point on the chart, the third point down from the top of the chart and the very first point at the lefthand side marked "depreciation sustained", and marked "A prime", on Blundon's basic date, that well was 73.2 per cent depreciated, and of course it had the difference to a hundred per cent, the projection of the line in the future. That is for the Blundon basic state.

Working the same way with the 1931, September, rock pressures, you find that two years later on the well condition, we have a 27.5 per cent condition against the 26.8 condition as of the Blundon's basic date of September, 1929.

We have a depreciation sustained in 1929 of 73 per cent, 5216 [fol. 2156] and in '31 of 72½ per cent, 73.2 and 72½. We have for those two dates, using the same principle, an age life on Blundon's 1929, age of years 12, with an estimated future of four beyond that date, and on the 1931, date, the age would be 14 with an estimated future life from Blundon's basic date of seven years.

Q. In other words, the older it gets, the older it is going to get?

A. The older it gets, according to this application of this understanding of the theory, the lower the slope or grade would be and eventually you would have your well going out to infinity for age.

Q. Go ahead now and explain, taking other wells, just the same as you have taken that.

A. Well, Number 4252 in the upper chart on a rock pressure in pounds was completed in 1929, or about five years after the completion of the well we have just discussed.

On Blundon's basic date, that well——

Q. Better get that location. That 4252 is the one that is 1,260 feet from 4009, is it?

A. Yes.

Q. All right. Now, that is the one that starts on about the seventh perpendicular line?

A. It is the one that the green lines converge from, and that is an easy way to pick it up.

Q. Now, is this in the same sand and the same field as the other well you have just spoken about?

A. It is in the same sand, the same field, approximately the same depth except for distance in elevation. The sand thickness of Well 4009 was recorded as 16 feet; sand thickness of well 4252 was recorded in the well log as 15 feet.

The initial rock pressure of well Number 4252 was 366 5217 [fol. 2157] pounds. That is plotted on the rock pressure graph. On Blundon basic date of September, 1929, the well had a rock pressure of 218 pounds. Two years later, it had a rock pressure, in 1931, September, of 258 pounds.

The projections or extensions that I have made here, connections that I have made here in green, show the application of the theory to this well. Starting at the point at the left in town's rock pressure, marked "Well, Number 4252", connecting the rock pressure, which is the highest rock pressure in the fall of 1929, marked "Blundon's basic date", with a straight line, which is here designated "B prime", it indicates an estimated future life, the extension of that slope to zero, of 10 years for that well which was seven years old on the Blundon date.

Two years later, connecting the initial point with the recorded rock pressure in 1931, and as indicated by the solid green line designated "B double prime", the estimated future life for this same well from the Blundon basic date would be 23 years, or just twice as long as indicated by the projection on the basic date.

Now, the reciprocals of these factors shown in green are shown in the lower chart in percentages. And following out that idea, starting in the lower part of the chart at Well Number 4252 which in year 1922, going towards the top of the chart in a diagonal line that connects with a green dashed line marked "B prime", you will find that on the Blundon basic date, on the "B prime" curve, the

well has been depreciated on the depreciation line, been depreciated 40 per cent. And dropping right down to the 1931 connection, which is the point of pressure that is used

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[fol. 2158] to make this extension, we find that the well has depreciated on that basis only 30 per cent.

The condition of the well is indicated by similar lines——

Q. Similar green lines?

A. Similar green lines which connect with the blue line and the extension, beginning with Well Number 4252 in the year 1922 at the top part of the percentage chart, following the dashed blue line from the point marked 4252 to the year 1929, the Blundon basic date, the condition of the well is shown in per cent at that point as being 60 per cent.

The extension of that into the future shows the condition of the well marked by the dashed green line "B prime" that you would expect to find based on that date.

The solid green line connecting the initial point of 4252 with the corresponding per cent indicated by the 1931 pressure, shows that in 1931 the well condition was 70 per cent, as against less than 60 per cent two years previous, and the extension on that "B double prime" line indicates the expected future life and balances with the expected future life on the upper curve, just merely reciprocals of the same calculations in other terms, one in per cent, the other one in pounds.

Q. Go ahead with the other two wells now.

A. In order to keep from having too much confusion on one chart, I did not add any additional colored lines, but we have the pressure curves of well Number 978 and Well Number 4307 shown on this chart.

Starting with Well Number 978 at the left hand upper corner of the chart, it had an initial rock pressure of 900 pounds.

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[fol. 2159] On Blundon's basic date in September, 1929, it had a recorded rock pressure of 235 pounds. Two years later, in 1931, the recorded rock pressure is 300 pounds, showing that, based on this method, well Number 978 would have been 26.1 per cent condition in 1929, and 33.33 per cent condition in 1931.

The per cent of depreciation sustained on Well 978 to Blundon's basic date would have been 73.9 per cent, and in 1931, it would have been 66.66 per cent.

The age of the well on Blundon's basic date would have been eleven years, the present age of that well at that date, and in 1931, it would have been 13 years old. The indicated future life as of 1929 from the Blundon basic date would have been four years and the indicated future life on the application of the same theory in 1931, would have been nine years from the Blundon basic date.

Well Number 4307——.

Q. Now, is 4307 in the same sand as 978?

A. Yes, sir, and it is about 600 feet distant from the last described well.

Q. All right.

A. Well Number 4307 will be found immediately to the right of the initial starting point of the last well discussed and starts at an initial pressure in 1923 of 350 pounds. The pressure of this well on the Blundon basic date, September, 1929, was 209 pounds, which indicated a condition of the well as 59.7 per cent, as against the pressure for 1931 of 278 pounds, showing a condition for the well of 79.4 per cent.

The depreciation on Blundon's basic date would have 5220
[fol. 2160] been 40.3 per cent. Two years later, as of 1931, it would be 20.6 per cent.

The age of the well on Blundon's basic date is six years. Two years later, of course, it is eight years. At the early period, the Blundon basic date, it has an indicated future life of nine years. But, using the same theory in extension, the estimated future life of the well would be 33 years from the same date.

Chairman Hopple: That 33 years extension period is your conclusion, is it not, according to your——

The Witness: No, it is just the applying of the slope of these lines against the time between the initial date and Blundon's basic date and actual pressures to arrive at an end point.

Chairman Hopple: Those figures then would be Blundon's figures?

The Witness: If he had used September, 1931, pressure, he would have arrived at the red solid "A double prime" line instead of the "A prime" line in red.

Q. This Exhibit 183 is based entirely upon Mr. Blundon's method, is it not?

A. Yes, sir; as I understand his method.

Q. What operating conditions, if any, are responsible for such situations as that, or is it an operating condition?

A. I believe you are referring to the difference in pressures, Mr. Turner?

Q. The difference in pressures at a later date? That is the higher pressures at a later date?

A. Well, during the past two years the gas market has

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[fol. 2161] been, like every other market, it hasn't been quite as good as it was before. The demands on the wells have been less. Consequently there has been a less withdrawal of gas and a chance for the reservoir pressure which has declined around the well, but which was higher in the reservoir some distance from the well, to overcome the resistance and build the pressure up in these wells to a higher pressure than is indicated in September, 1929.

Q. Assuming the rock pressures indicated on that Exhibit Number 183, are correct, is it possible to determine the used and useful life of a well based on the decline of rock pressure between its initial rock pressure and that of the basic date?

A. No, sir.

Q. Does the graph indicate that in 1929, on the basic date assigned by Mr. Blundon, the used and useful life of Well Number 4009, which has the higher rock pressure, is less than the indicated used and useful life of Well 4252?

A. It does.

Q. Is it not reasonable to assume that Well 4009, which is completed in the same producing sand and the same area and approximately only 1,320 feet from Well Number 4252, will produce as much gas in the future as the latter will and over approximately the same period of time?

A. Yes, sir.

Q. Does Mr. Blundon recognize volume of gas in his depreciation method?

A. I didn't find volume mentioned anyplace, no, sir.

Commissioner Bricker: Do you feel, Mr. Pepperberg, that you have sufficiently examined his theory and applied it to enough wells to determine the unreasonableness if the

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[fol. 2162] results which he obtained as an overall conclusion?

The Witness: I haven't examined his work sheets, but I have examined his theory as stated in the evidence, and I find that there is only one way of plotting it, and putting it graphically gives you a picture of the results and what you get by the direct application of what he has stated in his testimony shows that at points of where the well is younger, it will have a quicker extension than at points two years later.

Commissioner Bricker: That is possible, of course, I see, but do you feel that would be true of every case, have you gone far enough in your examination to determine whether or not there wouldn't be a balancing up? After all, you have got to strike averages in these things.

The Witness: You have to strike averages, yes, sir, but I don't see any other way out of it. Other words, a junior well completed with a lower rock pressure will have an indicated life to infinity if it is in the same field, while a senior well will be depreciated at a point much faster than the junior well that has a lower rock pressure all through its recorded life.

Commissioner Bricker: I appreciate that, but these are not all in the same field, of course.

The Witness: These are in the same field——

Commissioner Bricker: I know, where you have studied it.

The Witness: But there are similar conditions in every field.

Commissioner Bricker: Within the fields, yes.

The Witness: Within the field, yes, sir, and a composite

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[fol. 2163] picture based on just taking all of our wells and the initial rock pressure and subtracting therefrom the average present rock pressure will not give you the picture of depreciation. You have step-ups in all that history of time just like as indicated here on well Number 4009, an individual well, which shows that in 1925, the pressure was approximately 298 pounds while in 1929, the pressure was three hundred and about forty pounds. Now, those step-ups do not only occur in the individual well, but we are bringing in new fields that add new initial rock pressures and the curve, if you plotted all of these fields

together, and the curve down here would have steps like that along the line here, there would be some mortality in wells, but that is not a measure of depreciation.

Q. What was the indicated rock pressure of 4009 at the time that 4252 was drilled in?

A. No, I will have to go ahead on that curve, Mr. Turner.

Q. All right.

A. 4009 from its initial date in 1917 to 1925, I do not have the rock pressure, but in 1926, well Number 4009, which is the senior well, this is the senior well in 1926, it had a rock pressure of 295 pounds. The highest rock pressure for the junior well Number 4252 in the same year, 1926, was 223 pounds. Now, that same ratio, you might call it a ratio or difference in rock pressure, occurs throughout the data that we have for those wells. In other words, Well Number 4009, which is a senior well, is approximately 100 pounds higher rock pressure in each year except the year 1931, throughout its present curve.

Q. To which well would Mr. Blundon's method give the longer life, the junior or the senior well, that is the longer

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[fol. 2164] prospective life?

A. The longer prospective life as indicated by the green lines are credited to the junior well.

Q. From your knowledge as a geologist, is that a reasonable assumption?

A. It is not.

Commissioner Bricker: The only way, in your judgment, then that his theory would work and properly give you a picture of depreciation would be if there were only one well in each particular field.

The Witness: I don't believe that rock pressure has anything to do with depreciation.

Commissioner Bricker: Not even in that case?

The Witness: Not even in that case.

Q. What is the difference between depletion and depreciation?

A. Depletion as used and commonly thought of is the checking against the reserves like checking against the bank account.

Q. Keeping track of wasting asset?

A. Wasting asset, natural reserves, wasting asset.

Q. To see how much is left?

A. To determine what has been taken out and determine what is left, based on estimates.

Commissioner Bricker: You have to have the volume there, do you not?

The Witness: Yes, sir, you do.

Commissioner Bricker: That is a guess?

The Witness: Well, it isn't as wild a guess as this other proposition is if you have the tools to do that.

Q. You not only need the tools, you need something in addition to the tools, do you not, you need a knowledge of what?

A. Oh, you need a knowledge of the history of your wells, 5225 [fol. 2165] the way the field is developed, you need a knowledge of geology, you need a knowledge of some engineering and a little physics and some chemistry occasionally.

Q. What about the sands?

A. You have to know the thickness of the sand or the pay part of the sand underlying your field and the outline of your field has to be definitely located before you can determine the size of your reserve.

Q. What about the characteristics of the field, do you have to know them?

A. The texture of the sand, its porosity, you have to know something about the currents with relation to geological structure.

Q. And what about the knowledge of competitive wells, off set wells, as we call them?

A. In estimating reserves or any other estimates, for that matter, the data that is collected is more valuable when you know the environment of that well. That is, if you are taking a closed in rock pressure of an individual well or a group of wells, you must know how many days each individual well has been in the line, approximately the line pressure on those particular days and at the time the well is shut in, you must know the length of time it has been shut in before the determination of pressure is accepted and you must know whether your offset and neighboring wells are shut in sufficiently distant from this well to allow it to give you a reasonable reserve pressure. We are not interested in knowing the working pressure of the field or the working

pressure of that operating well for calculating reserves. We are deeply interested in trying to find out what the reserve pressure is.

Commissioner Bricker: Mr. Pepperberg, you will agree

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[fol. 2166] with this, you say "You must know"; you are asking a lot of three humble lawyers, aren't you?

The Witness: I will say I must know before I can make an estimate.

Chairman Hopple: Now, you have told us about gas well depletion. I wish you would tell what you mean by gas well depreciation.

The Witness: I never used the term gas well depreciation.

Chairman Hopple: It has been used here in the case. What is your notion about it, if there is such a theory?

The Witness: What would be my idea?

Chairman Hopple: Yes.

The Witness: I can give you an idea. I am not an expert on depreciation. If I may use this curve as an illustration, Well Number 4252, which is the junior well and is located 1260 feet from Well 4009, has a similar pressure curve. If in any one year both of those wells produced approximately an equal amount of gas, if they were in the line on the identical days against the identical line pressures, I am talking about measured volume of gas, we would be able to expect that the future production of the wells would be approximately the same. I am not talking life, I am talking volume. The period of time in which these wells would serve as producing wells would depend largely upon the number of days they were called on. They might be called on to deliver a large volume of gas 365 days one year and only 200 days or 150 days next year. Consequently the reserves beneath those wells would be extended as the use you put them to,

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[fol. 2167] that is, in time.

Now, to try and answer your question on depreciation, the depreciation of the well and well equipment, as I understand——

Chairman Hopple: Not well equipment.

The Witness: Just the well? It would be the same proposition one way or the other. When the date occurred that the location is underlaid by a volume of gas that would pay for the drilling and completing of the well, the carrying

charges, the usual interest return on invested capital, on that date, your depreciation would start naturally. On that date, when there was just sufficient gas remaining to pay out your depreciation will begin. Anything that has happened previous to that, the well has been kept in 100 per cent condition for production purposes. And if I were calculating depreciation, I would try to determine the amount of money that was spent for the well, I would try to determine the amount of cubic feet of gas at some definite price that I expected to get that I would prorate to the tail end of the life of that well and take it out through that span of life.

Mr. Turner: You understand, we didn't offer this witness for depreciation.

Chairman Hopple: No, Mr. Turner, the expression was used, depletion and depreciation.

Mr. Turner: Depletion and depreciation are two things very, very different, very frequently mixed up. This witness will talk about depletion until the cows come home if you want depletion. If you want depreciation, why he says he is not an expert.

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[fol. 2168] Chairman Hopple: I don't want depreciation or depletion, I want information.

Q. Well, let me ask you for information then about something in your line. Does pressure indicate volume, that is, relative volume?

A. Just let me get your question. Are you talking about volume in delivery of a well or are you talking about volume in reserves?

Q. I am talking about volume in delivery of a well, I am taking the pressure on two different wells, can there be a situation where two wells have each the same pressure, and one gives a volume commercially profitable and the other gives a volume too little to use?

A. We have conditions where wells—I will cite a condition, if I remember the well, it is a Carlisle well in Lawrence County that had an initial rock pressure of more than a thousand pounds and had an open flow, initial open flow of about 100,000 cubic feet. An attempt was made to use that well to furnish fuel for the drilling of another Carlisle well which was approximately one mile away and they used a two-inch pipe and the Carlisle well, we will call it Well

Number 2, was drilled with a steam engine which uses approximately 50,000 cubic feet a day for fuel, which is about 50 per cent of the open flow of this particular well, and when it became necessary to dress bits in a gas forge at Carlisle Number 2, it was necessary to shut down drilling because the well that had a thousand pounds pressure could not deliver at a rate of 50,000 cubic feet a day plus the little bit of gas that was necessary to heat a bit. When the sand is tight and closely cemented you may have high rock pressures which, when called upon to deliver, will deliver small

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[fol. 2169] volume of gas for a short time and if called on too much will not perform like a commercial well is expected to perform; but if you close that well in for three or four days, the pressure in the vicinity of the well has a chance to overcome the resistance in the sand and you will find your well with practically the same rock pressure that it had initially. Does that answer your question?

Q. Yes. I am trying simply to get to the Commission the fact, if it be a fact, that a well with lower pressure may have a greater volume than a well with higher pressure; is that true?

A. We have numerous wells like that, yes, sir. Numerous districts like that where initial places are low and the open flow volume is higher because the sand is porous and coarse and that is a matter of orifices and we have districts and areas where the pressure is high and the porosity is low and the delivery open flow capacity is small.

Mr. Turner: You may cross-examine.

Commissioner Geiger: May I ask a question or two here? Your graph 183 is based upon examination of a number of wells in Section 3, Washington Township, Holmes County, Ohio. May I ask why you selected, of all the wells that you have drilled or that the company owns, these particular wells in Washington Township, Holmes County, Ohio; were they the ones Bendon referred to?

The Witness: No, sir, they are some of the wells that are included in his work.

Commissioner Geiger: Well, now, would the same graph that you have here be applicable to all the other hundreds and perhaps thousands of wells that are drilled in the ter-

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[fol. 2170] ritory belonging to this company.

The Witness: At the individual wells, I think most of them would. Now, I want to continue that this way, if a well is in the line 100 per cent of the time, it will not show this at this marked degree, but taking it at different points in its life it will show that extension.

Commissioner Geiger: Well, you haven't stated yet why you happened to select Section 3, Washington Township, Holmes County.

The Witness: I selected it because it was a simple condition in the Clinton sand where we had enough continuous rock pressure records that we could get a hold of quickly.

Commissioner Geiger: I see. It is probably typical of other wells.

The Witness: Yes, sir, it is typical of the proposition, as I understood Mr. Blundon to say, that a well having 500 pounds initial rock pressure would be depreciated 50 per cent when it had a rock pressure of 250 pounds.

Commissioner Geiger: Now, your graph 183 is interesting and we tried to follow it, but the net result of all of that, as I understand it, is that you are endeavoring to show that rock pressure has nothing to do with the reserve value of the wells?

Mr. Turner: No.

The Witness: I said rock pressure has nothing to do with depreciation.

Commissioner Geiger: Well, has it anything to do with the amount of gas that is in the pool?

The Witness: Not alone, no, sir. If you have rock pres-

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[fol. 2171] sure and the volume of gas represented per pound of rock pressure, you may get at reserves, but that is a measured proposition.

Commissioner Geiger: What this is endeavoring to show, as I understand it, is that Mr. Blundon's theory that the depreciation or remaining life or value of a well cannot be measured in rock pressures.

The Witness: No, I just endeavored to show the results I would obtain trying to apply his theory as I understood it.

Commissioner Geiger: Well, but your application is simply to show that his theory is not sound, isn't that true?

The Witness: Well, if this projection is right, it shows that a senior well having a higher rock pressure will not have as long a life as a junior well having a lower rock

pressure in the same field, the same sand and just across the field from each other.

Commissioner Geiger: Is that all this intended to prove?

The Witness: That is all.

Commissioner Geiger: Just that a senior well having the same rock pressure is not as long life as a junior well having a less rock pressure.

The Witness: No, that isn't the question at all.

Commissioner Geiger: Well, I don't think it is myself. But what I am trying to get at is what is this all about? You have given us a lot of lines here on 183 and so forth. What do you intend to show about it, briefly and to the point without too much explanation?

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[fol. 2172] Mr. Turner: If Your Honor had watched it, I think we wouldn't have had this scolding of the witness.

Commissioner Geiger: We are not scolding the witness.

Mr. Turner: I can't take it any other way. You were given one.

Commissioner Geiger: You would think this was a very pleasant occasion.

Mr. Turner: You wouldn't pay any attention to it. I gave you a copy of it.

Commissioner Geiger: Let him explain.

The Witness: Will you read that question, please?

(Question by Commissioner Geiger read as follows: "Well, I don't think it is myself. But what I am trying to get at is, what is this all about? You have given us a lot of lines here on 183 and so forth. What do you intend to show about it, briefly and to the point, without too much explanation?".)

The Witness: The lines show just what the typewritten sheet of explanation attached to the exhibit shows, namely, that in 1929 on Blundon's basic date Well 4009 was, according to his theory, 26.8 per cent condition and two years later, the application of the same principle, it was 27.4 per cent condition.

Commissioner Geiger: But what do your conclude from that?

The Witness: Why, I conclude that the well is in better condition when it is two years older.

Commissioner Geiger: Your conclusion and your demonstration is to show that Blundon's theory is not correct.

The Witness: The way it works out, Your Honor, the
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[fol. 2173] well is in better condition when it is two years older——

Commissioner Geiger: Oh, I know, you have repeated that. But the ultimate conclusion is that Blundon's theory is not based on sound conclusions.

The Witness: That is the way I would look at it.

Commissioner Geiger: All right.

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[fol. 2174] Commissioner Geiger: Mr. Turner, would you have this witness, under your questioning rather than under mine, explain briefly the theory of this natural gas? We haven't had anybody do it yet very satisfactorily. He probably is able to do it.

Mr. Turner: The theory of natural gas?

Commissioner Geiger: Yes, what they have worked out as being the probability of what is happening under ground when they drill a well.

Mr. Turner: Go right ahead, Mr. Pepperberg.

Commissioner Geiger: Explain, not too much at length, the content of your gas, what holds the gas and how you reach it, and how much the well drilled will draw from surrounding territories and so forth. We have not had a really scientific explanation of the theory of the natural gas situation.

The Witness: Well, the gas is confined in a reservoir rock, which is overlain by what is commonly termed the cap rock. When the drill penetrates the cap rock and punctures a portion of the gas-bearing formation, the gas blows to the surface.

It is impossible to define a field, the area of a field, or the thickness of the sand from point to point until you have sufficient information, which can only be obtained through drilling the area. Once a locality is surrounded by dry holes, you can draw the approximate boundary of the gas-bearing area.

It is impossible to state how many acres a well will economically drain. That is, our experience shows in a number of fields, that a well will lower the rock pressure for a considerable distance surrounding the point that it
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[fol. 2175] penetrates the gas-bearing formation. And by so doing, it suggests to the operator that he should attempt to space his wells to get the most economical results from the drilling that he is forced to do.

No one can definitely fence in the number of acres that a well will drain and not rob an adjacent area. No one can definitely state that a well in this particular field or section will efficiently drain as much area as one at a location some distance away, because the sand that contains the gas is not of the same texture, thickness, or porosity.

Q. At that point, please explain to the Commission your process for getting cores of the sand and what examination is made thereafter to determine the porosity of the sand?

A. In some fields we use a core drill. Occasionally, it is a diamond drill, which bores around a core and lifts the core out just as the formation occurs in place. In other localities where they do not use rotary tools, the rotary type of drilling, we have a core drill that picks up buttons, we call them, thin parts, not a continuous core, but pieces of the gas-bearing formation.

When it is not possible to obtain portions of the sand that way, we take the regular drilling cuttings and pick out the larger pieces *of* laboratory tests. In the laboratory then they determine the porosity of various sands.

And you must bear in mind, when you have but a small fragment, that you are only getting the porosity of that particular fragment, and it does not necessarily represent the porosity a foot higher or 2 inches higher or 2 inches lower.

When a percussion or cable tool core drill is used, as

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[fol. 2176] I said before, it comes out in buttons, or biscuits, as the drillers call it. Naturally you would expect to get the hardest, densest, sample, and not the loosely cemented sample, because those little buttons or biscuits, one on top of the other, would wear out the softer sand and you would lose that in your sample. And it is probable that the larger amount of gas occurs in your softer, more open portion of your formation.

Commissioner Geiger: Now assuming by the drilling of the dry wells around the edges of the pool you have fairly well defined the limits of the pool, is there any fairly satisfactory manner in which you, as a geologist, can determine

the amount of gas in the sand in that pool so as to know fairly what its gas content is?

The Witness: After the pool has been defined, having a complete history of the wells and the measured volume of gas that has been taken from the field, then it is possible, using your geological factors, your thicknesses of sand, to determine an estimate of reserves which is used and useful as far as the operator is concerned in estimating the content of the field. Now, there are a lot of factors that we would like to have that are not always present when we make an examination.

Commissioner Geiger: Assuming that the pool is overlaid by an anti-clinal cap or structure of rock, is tapping that at the peak of the anti-clinal rock a better point for a gas well, that is, will the gas tend to flow up to that higher point in seeking an exit through a gas well?

The Witness: You mentioned anti-clinal and cap rock. Anti-clinal and cap rock is the cap that overlies the produc-

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[f[redacted]77] ing sand. Theoretically the field is surrounded by [redacted]r that occurs in the same formation in which the gas occurs and if the pay formation is of uniform porosity and thickness, and the water is under sufficient head, and the structure is a dome or an anti-clin-, which is shortened, surrounded by water, theoretically one well would be all that would be neceessary to drain that area, providing, of course, there was sufficient water to replace the gas that has been taken out.

Commissioner Geiger: Now, is it the natural pressure of the gas in the porous sand that tends to drive it out into the open where the gas well punctures the overlying strata, or is it water pressure or both?

The Witness: In some fields it is water. In some fields, it is the natural pressure, yes, sir. In Ohio we have very little water associated with our gas-bearing formations, and in a locality of that sort the pressure is not attributed to the so-called hydrostatic pressure.

Commissioner Geiger: Have you arrived, through a course of examination of the field, at any approximate life of a field?

The Witness: I have not.

Commissioner Geiger: Or must you know the thickness of the sand, the thickness of the pool, and so forth, before

you can determine how many thousand cubic feet it will produce?

The Witness: Those are the factors we would have to have, yes, sir.

Commissioner Geiger: After having arrived at those factors, can you fairly estimate the number of thousand cubic feet of gas there is available?

The Witness: Yes, sir. Then the life of the well would

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[fol. 2178] depend on the way you took the gas out, the rate at which you took it?

Commissioner Geiger: We have had a great deal of testimony that has been interesting as to the productive gas fields and the non-productive, or as is sometimes designated, acreage No. 1, and acreage Nos. 2, 3 and 4. Could you give us any fairly correct statement as to the value to acreage No. 1 of the surrounding No. 2, 3 or 4? In other words, let me put it this way. Could you tell if a gas well were sunk in acreage No. 1, how soon it would begin to draw gas from the surrounding acreage No. 2, which has not yet been developed?

The Witness: You could not tell how soon it would begin to draw from there, no, sir.

Commissioner Geiger: Could you tell to what distance it would draw?

The Witness: You would get that from the action of adjacent wells.

Commissioner Geiger: Let me ask this question which possibly might throw some light on it. Assuming you are drilling offset wells against wells on property not owned by the company that is drilling the offset well, how near would you drill your offset well to the well drilled on the other property in order to save your gas and possibly get some of their gas?

A. I believe that it is custom to offset wells approximately the same distance from the property line in competitive field operations. If your competitor has located a certain distance from the line, why we will usually offset a similar distance.

Commissioner Geiger: Now, that just results from the

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[fol. 2179] haste of wanting to get the gas before the other party gets it. But suppose you were really doing it scien-

tifically and each man was to get what gas was properly under his lease, how near then would you drill the offset wells, one to the other? Would that depend on the porosity of the rock?

The Witness: It would depend on all of the conditions and factors in that field, yes, sir.

Commissioner Geiger: But as a matter of practice, if one man puts a gas well a hundred feet from his line, the other fellow proceeds to drill an offset well a hundred feet from his line?

The Witness: Not always, but usually.

Commissioner Geiger: Now, one more question and then I will stop. The different gas-bearing sands, are they so that you can reasonably tell, in any district that is being drilled in the upper gas sands, whether or not further down there is an additional gas-bearing sand? Do they follow in a uniform rule, or is that more or less subject to guess?

The Witness: The only thing that will prove the presense of gas is the drill. In some localities we have conditions where you can expect to get more gas in deeper formations because of geological conditions that we have from data already found at other points. But there is no way of telling whether you will get gas or oil or water beneath a gas field until you drill it.

Commissioner Bricker: Are there any gas-bearing sands below those that have already been struck in Ohio or developed?

The Witness: Not below those already struck in Ohio and developed in Ohio.

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[fol. 2180] Commissioner Bricker: That is what I mean.

The Witness: We have a sand, the St. Peter's, that is below the Trenton, which is productive at localities far distant from here, and in which there have been several tests made in Ohio that showed the presence of shows of oil and gas. It has not been commercially productive in Ohio.

Commissioner Geiger: May I ask one other question there, because it connects with this? Is there a defined table or experience as to the depths to which a well may be economically drilled?

The Witness: That is all according to what you get at the bottom of the well.

Commissioner Geiger: You can't tell until you drill it?

The Witness: No, sir.

Commissioner Geiger: Is 5,000 feet a limit in Ohio?

The Witness: No, I would not say so. We are drilling a well in West Virginia now that is almost 8,000 feet deep.

Commissioner Geiger: And you haven't struck any gas?

The Witness: Yes, we have struck gas of several varieties above, but while we have the machinery on the place, we want to find out what is below.

Commissioner Bricker: Have you any encouragement from that that there is a still lower gas-bearing sand in West Virginia?

The Witness: Not lower than the Ohio formations. We have not gone through all of the present Ohio producing formations yet, in that hole, because down there the formations that are at the surface are much deeper. We are testing the full section and we are going to make a hole as far as we can go.

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[fol. 2181] Commissioner Bricker: The geologists have no idea then that in this eastern section of the country, the Appalachian section, there is a reservoir of gas anywhere below that which you have already developed.

The Witness: It cannot be determined without the drill, no, sir.

Commissioner Bricker: There might be and there might not?

The Witness: Yes, sir.

Commissioner Geiger: Inasmuch as your exhibit 183 refers to a certain section in Holmes County, is the gas there produced in the only sand there is in that territory?

The Witness: On that table, yes, sir.

Commissioner Geiger: Further drilling would not produce any gas?

The Witness: I would not say that. That is underlaid by the Trenton.

Commissioner Geiger: Has any deeper drilling been made in Holmes County?

The Witness: I cannot answer that.

Commissioner Geiger: You don't know? Now, one more question, please. Do you know what the average depth of the wells in the Pan Handle district and the Amarillo district is?

The Witness: About 3,000 feet.

Commissioner Geiger: They would be designated shallow wells or medium shallow wells?

The Witness: According to where you were drilling, yes, sir. They are not too shallow. They are not too deep. A few years ago a 2,000 foot well was a deep well. Later a

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[fol. 2182] 3,000 foot well was a deep well. In California they have some tests that are below 10,000.

Commissioner Geiger: In the Amarillo district, 3,000 feet have produced enough gas to justify the running of that pipe line from the Amarillo district to Indiana?

The Witness: Yes, sir.

Commissioner Geiger: It is a matter of judgment as to whether or not the Oklahoma field and the Pan Handle field at the depth of 3,000 feet can be a successful competitor with the Ohio Field, where you might have to go eight or 9,000 feet.

The Witness: The open flow volume of wells in the Amarillo field is a great deal larger than the open flow volume of wells in the Ohio field. A small well in that district would be about 10,000,000 open flow, a very small well.

Commissioner Geiger: That would be a very large well in Ohio.

The Witness: Yes, sir. They have had wells in the Amarillo field that were as high as 110,000,000 open flow, one single well.

Commissioner Geiger: Have the geologists been able to estimate fairly the probable life of those heavy flowing wells in the Amarillo district?

The Witness: I wouldn't say the life. I would say the content, the reserves, yes, sir.

Commissioner Geiger: The pool is fairly well marked?

The Witness: Fairly well, yes, sir.

Commissioner Geiger: The conclusion is that there is enough gas there to supply the gas consumers in America for a good many years?

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[fol. 2183] The Witness: I wouldn't hardly say that.

Commissioner Geiger: At least it is enough to justify the building of that pipe line?

The Witness: Yes, sir.

Commissioner Geiger: And a pipe line into Denver?

The Witness: Yes, sir.

Commissioner Bricker: Is that the same sand they are getting the gas from in Ohio, comparatively the same?

The Witness: No, sir.

Commissioner Bricker: A different gas-bearing sand entirely?

The Witness: Yes, sir.

Commissioner Bricker: That is all.

Commissioner Geiger: I did not want to be boring about this, but anything you feel you might wish to develop about gas and gas fields, would be interesting.

Mr. Turner: All right, I will go a little further then.

By Mr. Turner:

Q. What is your opinion as to whether No. 2 leaseholds are necessary to support No. 1?

A. They are necessary.

Q. Does No. 1 drain No. 2 at any place?

A. Yes, sir.

Q. There was an exhibit introduced here yesterday showing a number of cases where The Ohio Fuel Gas Company had paid the royalty instead of drilling the particular No. 2 property or the particular property; was that on account of the fact that the company was getting the gas from that undrilled land or upon the theory that it would?

A. I do not know the tract you are talking about, but I would say that the reason that they paid a royalty in lieu of drilling was because they expected to get that gas; other-

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[fol. 2184] wise they would have been forced to drill the property. And they could get the gas through the existing wells.

Mr. Butler: Why ask him to guess at the company's reason when Mr. Seyffert tells you the reason?

Q. Following a question asked by Commissioner Bricker and Commissioner Geiger also about the different sands, whether or not you had gone down below the usual sands in Ohio to all known sands, have you gotten down in all fields below or to the lowest sands?

A. No, sir.

Q. What are the usual sands in Ohio?

A. The common and largest producing gas sands in Ohio consists of the Berea and the Clinton.

Q. So far as you know, is there any Clinton producing sand in West Virginia at all?

A. It has not produced gas in West Virginia in commercial quantities.

Q. Which is the lower, the Clinton or the Berea?

A. The Clinton is the deeper.

Q. In the Berea field is there a possibility that there is a Clinton sand under the Berea?

A. It is a certainty.

Q. Then what sands, if any, are there under the Clinton?

A. Beneath the Clinton would be the Trenton. You have the Medina series, the St. Peters, and below that we have not drilled enough to find out just what the section would be.

Q. Where is the Injun?

A. The Injun would be above the Berea.

Q. Are you in some Injun sands in Ohio?

A. Yes, sir.

Q. In those fields, have you gone below the Injun sands yet?

A. In some instances, yes, sir.

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[fol. 2185] Q. In all instances have you?

A. I don't know. I would have to look at the maps.

Q. You are still getting gas from the Injun sands?

A. Yes.

Commissioner Geiger: You don't mean to tell us that where you strike a sand, either a Berea sand or a Clinton sand or a Trenton sand, that there is gas to be found there? The fact that you strike the particular sand does not indicate that it has gas in it?

The Witness: No, sir. Might I explain one thing? In the southeastern part of Ohio there are a number of what are known as shallow sands, the Maxton, the Injun, the Keener, the Berea, and in certain localities gas is produced from several zones within the pool. Some of the wells have reached deeper sands and gone through the upper sands. Some of the wells that were drilled through the shallower sands have been deepened to the next lower formation. In some instances they have made attempts to reach the deeper formations and at certain localities have tested some of the deeper formations. Apparently where the gas is present in the shallower formations, you have a better chance of picking up production beneath that formation.

Mr. Turner: State that again. Read that, will you?

(Answer read.)

By Mr. Turner:

Q. You were asked about the size of Texas wells, and I want to get, if you can give us, the average size of an Ohio well, the average output in volume.

A. The average initial open flow volume?

Q. I suppose that is the way to tell it.

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[fol. 2186] A. That is what we were speaking about, and I assume that is what you want. The average of wells we were discussing in Ohio is a million and a half.

Q. As against an average in Texas of about what?

A. An average in Texas of about what? *A.* An average in Texas—this is just going to have to be a guess, but I would say from twenty to a hundred million; twenty million to a hundred million.

Q. And the relative depths, do they go deeper in Ohio, in The Ohio Fuel Gas Company's fields, than they do in the Amarillo district in Texas?

A. Some of our wells are deeper.

Q. What about the most of them?

A. Most of them are about the same, that is, our new gas is coming largely from Clinton, our present new wells, largely from Clinton, which is about 3,000 feet.

Q. The Clinton is not at the same level all over the gas fields, is it?

A. No, sir.

Q. Nor is the Berea at the same level?

A. No.

Q. Nor any other sand at a uniform level throughout the gas fields?

A. No, sir.

Commissioner Geiger: Do you anticipate, Professor, that it may be possible that the Amarillo field will drive out the production in Ohio and West Virginia and Kentucky, and that the wells are so much larger and are shallower, that it will be cheaper to transport the gas by this pipe line and deliver it in Ohio than it will be to drill new wells in Kentucky and West Virginia and transport it back to Ohio?

The Witness: I am not entirely qualified to talk about costs of transmission and getting gas to markets, but I do
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[fol. 2187] not anticipate that the Western Gas will bring on a condition that will wipe out the necessity of producing gas in this territory.

Commissioner Hopple: Let me ask you some questions. Do gas producing sands, as gas is withdrawn by production, geologically reproduce gas at the same time?

The Witness: I would say not. Of course, you are asking whether gas is being generated at the present date?

Commissioner Hopple: That is what my question means.

The Witness: No.

Commissioner Hopple: So that when you exhaust a gas field, whether it is by means of one or more than one well, the productivity then of that particular pool is at an end?

The Witness: Yes, sir.

Commissioner Hoople: And no production can be anticipated or expected.

The Witness: Right.

Mr. Turner: Unless you go below that particular sand.

The Witness: Yes—just the one reservoir you are speaking of?

Commissioner Hopple: That is all.

By Mr. Turner:

Q. Has it been the history of Ohio that fields have gone out and become exhausted?

A. Yes.

Commissioner Geiger: Professor, while we are on that point, what is the theory of the production of gas? What has produced it or caused it? From what does it come? Do you know?

The Witness: That involves a lot of discussion. There are just as many theories as there are geologists almost as
5248
[fol. 2188] to what the gas has generated from. The organic theory is the common one. I think we have more votes on that side than on the other side.

Q. Just explain that theory. Explain several of these theories to them?

A. Source beds as commonly accepted by a large number of petroleum geologists and gas geologists, consists of beds that have organic matter, consisting of minute animal and vegetable life, which is laid down in the sediments at the time that they are deposited, covered by a succession of beds, which protects them from oxidation, and compacted by the addition of sediments above. Beyond that point, you run into a lot of chemistry and a lot of physics. You just have your organic matter present and it takes heat and chemistry to generate this gas, just like if you took some coal, put it in a retort, closed it up, with one outlet, warmed it up slowly, you would get a volume of gas off of it. That gas has to be trapped some place, and it has to find lodgment in a reservoir of rock. Does that cover your question? I don't believe it worth while to go back to the chemistry and physics and that side of it. There are other people who have a volcanic theory. There are just too many of them.

Commissioner Geiger: We have heard one rumor about one of the professors at the Ohio State University gathering some of the slime from the Scioto River here, putting it in a retort and producing natural gas. Might that be possible?

The Witness: Yes, that is possible. You can go out here along the edges of O'Shaughnessy Dam in some of those little coves and put a stick down in the cattails there and get a substance that will burn. It is methane gas. It 5249
[fol. 2189] is being produced on the surface. It is just one of the products of rotting vegetation.

Commissioner Geiger: Is marsh gas the same?

The Witness: Yes, a large part of our gas is methane, and marsh gas is methane also.

Commissioner Geiger: Then you might say generally that natural gas produced in the position in which it is found is simply marsh gas that was trapped and held by some impervious rock above it.

The Witness: You could assume that.

Commissioner Bricker: Is there any difference in the chemical make-up or composition of gases from the different sands?

The Witness: The combination of the gas from different sands?

Mr. Turner: The composition.

The Witness: Yes.

Commissioner Bricker: A different composition?

The Witness: There is a different combination of elements in the natural gas in different sands, and there is a different composition.

Commissioner Bricker: Of a different gas.

The Witness: You can find sweet gas, as we call gas that has no hydrogen-sulphide in it at practically the same horizon at a different locality than sour gas.

Commissioner Geiger: We have had some sour gas here in Columbus.

Mr. Butler: Is it a matter of taste or smell?

Commissioner Hopple: Where was this gas?

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[fol. 2190] Chairman Geiger: Do you wish to adjourn at this point, gentlemen?

Mr. Turner: If you have a few more questions, we are willing to stay.

Commissioner Geiger: We will adjourn now.

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[fol. 2191] Examined by Mr. Turner:

Mr. Turner: Mark this Company Exhibit 187.

And thereupon the paper writing above referred to was marked for the purpose of identification as Company Exhibit Number 187.

Q. Mr. Pepperberg, Commissioner Bricker inquired of you respecting the use of a number of wells or a group of wells as to the effect of the curves in such cases. I will ask you to state whether or not you have taken Mr. Blundon's Exhibit 74 and his Page 9 thereof with his division of the fields into Eastern, Lancaster, Mt. Vernon, Northern, Southern, Stork, and drawn a graph showing the result of Mr. Blundon's own figures on that Page 9 of Exhibit 74?

A. I have.

Q. Now, just briefly explain that exhibit?

A. In the lower left hand part of this picture, I have shown the data copied from or taken from City Exhibit 74, Page 9, showing the number of wells for each graph, the graphs being lettered A, B, C, D, E, F, and G. On the left hand scale is shown the per cent. depreciation as appears in Mr. Blundon's table, the age of the various groups of wells

is indicated by the scale at the bottom of the section in years, and at the right hand side of this lower graphic presentation is indicated the per cent. of condition of the groups of wells plotted.

Curve F or straight line F, graph F, which contains 5366
[fol. 2192] 323 wells having an age of 3.18 years, shows, if extended, a total estimated life for that group of young wells of a little less than ten years.

Curve C, which contains 443 wells having an age, according to Mr. Blundon's table, of 16.23 years, when extended beyond Mr. Blundon's basic date in the same manner, shows an indicated total life for that group of wells of 36 years.

Q. In other words, the older wells have the longer life expectancy and the younger wells have the smaller life expectancy?

A. Yes.

Q. Go ahead.

A. The same data used in the lower lefthand part of the chart is reproduced in the upper righthand part of the chart, placing the end of Mr. Blundon's curves on his basic date, in other words, bringing all of the curves to an end point on the basic date and projecting them backwards so that the age of the wells are indicated in years at the top to the left of the new basic date and the estimated future life is indicated at the right of the basic date. The graphs on this presentation are marked A prime, B prime, C prime, D prime, E prime, F prime and G prime. They correspond to the A, B, C, D, E, F and G in the other graph.

This picture shows that the oldest wells, namely, C prime, have the longest life in the future, that wells which have an age of from 7 to 9 years as indicated on the top scale to the left of the Blundon basic date line have an indicated future life of from four to seven and one-half years, while the wells in the C prime curve which on the basic date had sixteen years past life have an indicated future that goes beyond the chart shown. The wells on the F prime graph 5367
[fol. 2193] having an age of 3.2 years have an estimated future life of six and a half years. This merely shows the results of the application of the use of pressure decline percentages to depreciation as used by Mr. Blundon.

Mr. Turner: We offer in evidence Company Exhibit Number 187.

Commissioner Bricker: It may be admitted.

[fol. 2194] Mr. Pepperberg testified on cross-examination as follows:

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[fol. 2195] Q. Mr. Pepperberg, the other day in your graph Number 183, upon which is certain wells in Section 3 of Washington Township in Holmes County——

A. Yes, sir.

Q. I think you were asked why you chose those wells?

A. Those wells were particularly chosen because they were offset wells in the same pool in the same sand and the dates of completion of the two wells that were spoken of more in particular were distant apart five years. I believe 4009 was completed in 1917 and 4252 was completed in 1922. I haven't one of those before me, Mr. Butler.

Q. You are right about that. I put them down on here, 4252 in 1922 and 4009 in 1917. You were asked by one of the Commissioners about that increase of pressure which you noticed and caught and trapped and put into your graph. What was the reason for that increase of pressure?

A. The reason for that increase in pressure was due to the fact that two wells shown on that picture were closed in a large part of the time due to the depression, 1930 and '31.

Q. Did you look that up this morning, those figures?

A. No, sir.

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[fol. 2196] Q. When did you look it up?

A. Look what up?

Q. Did you know it the other day?

A. Oh, yes.

Q. So those served your particular purpose well, those characteristics?

A. No, even had the wells been drawn upon during those two years and had the normal rate of decline, the curve would have been extended just the same.

Q. Will you give me from your memorandum of Well 4009 the days' use for the four years or the three full years, '28, '29, '30 and 1931 up to date?

A. The day's use?

Q. The days' use.

A. Nothing on here about days' use.

Q. Well, didn't you look into that?

A. No, I just assumed, in answering your question, I just assumed that the depression caused these wells to be used less number of days and I know that when you close the well in for a long time after it has been pulled on, it will build up pressure.

Q. Well, don't you know that the wells in that whole section were almost closed in?

A. I don't know it now, I didn't look it up.

Q. Why didn't you investigate?

A. I didn't have to.

Q. No, you didn't, that is correct.

Mr. Turner: I think you have taken "I didn't have to" in a sense he didn't mean.

The Witness: I didn't mean to be curt.

Q. Oh, no.

A. But the picture in itself shows that the wells couldn't have been used, or the curve would have gone down. I beg your pardon.

Q. In other words, if the wells had been in use, you would have expected the curve to have gone down?

A. You would have expected some decline, *you*, sir.

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[fol. 2197] Q. How many wells, by the way, are there in that Section there, how many gas wells?

A. There are nine gas wells, one dry hole and one abandoned location.

Q. Well, take the nine gas wells, do you know that well 978 in 1930 was in use 48 days?

A. I didn't look it up.

Q. That 979 for the same year was in only 65 days?

A. I don't have 979 on here.

Q. And Number 4009 for the same year was in only 50 days?

A. I don't know it, didn't look it up.

Q. Number 3041 in only 46 1/5 days?

A. I don't know that.

Q. Number 4045, 67 days?

A. I don't know that.

Q. 4252, 48 days?

A. I don't know that.

Q. 4274, 49 days?
A. I don't know that.
Q. 4285, 54 days?
A. I don't know that.
Q. 4307, 54 days?
A. I don't know that.
Q. And do you know that the records for 1931 up to date show a nearly negligible number of days for those wells?
A. I don't know that. The curve indicates all that.
Q. Some as low as four, the highest being only 16 days?
A. The curve indicates those conditions you are describing.
Q. And do you know that in 1929, the pool was running probably at less than half capacity?
A. I don't know it.
Q. And in '28, running at much less than its capacity?
A. What do you call capacity?
Q. What do you call capacity of a well? You know better than I do. I am just a layman, really, and I will let you define your own term, what you would normally get out of it, the number of days. That is really what I have in

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[fol. 2198] mind, it ran about half the number. Now, the fact is, if I have given you the correct figures, that that was almost a shut-in pool, wasn't it?
A. That is right.
Q. That is right. The truth is, if you take a graph of a well, it may come down and go up and come down and go up and come down and go up and come down, and go up. If you take a period of eight or ten years, you can express the result of that by a straight line, can't you?
A. You take a period of eight or ten years and plot each point, you will not get a straight line.
Q. I am talking about the composite character of those can be put into a straight line?
A. The composite character extended into the settled production period will not be a straight line. You have taken two points here to get the straight line. The pressure decline curve of a gas well is a hyperbola, it is not a straight line.

Q. Where did you plot what you call Mr. Blundon's production of 4009 up to about 1929, what line is that, a red line, a prime?

A. Did you say production.

Q. I mean the rock pressure?

A. The line A prime connects the initial rock pressure of 4009, which was 1120 pounds, with the Blundon basic date, which I understand is the September, he said the highest rock pressure in the fall of the year. That is plotted between those two points.

Q. And that is a straight line?

A. That is a straight line. It is a simple subtraction.

Q. Now, as a matter of fact, that rock pressure was not a straight line?

A. No, sir.

Q. Up and down, up and down?

A. Well, yes, up and down.

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[fol. 2199] Q. A little like the ebbing tide?

A. No, not quite that bad.

Q. Well, just a little like the ebbing tide?

A. If you take the highest rock pressures in each year, you can divide them into a very nice curve.

Q. Yes. But it is not a straight line?

A. It is not a straight line.

Q. This straight line that you give is a mere composite of all of the rock pressures in those ten or twelve years?

A. This is no composite of that. This is the application of Mr. Blundon's theory.

Q. What do you mean by Blundon's theory?

A. Mr. Blundon stated in his testimony that he studied the individual gas wells and he took the initial rock pressure and subtracted from that the highest rock pressure in the fall of 1929, and determined the per cent of decline in rock pressure and applied that per cent of decline in rock pressure to the depreciation of the wells, if I understand the testimony correctly.

Q. When you speak of Blundon's theory or method, do you mean that it is a new method to you?

A. It is a new method to use for depreciation to me.

Q. You had never heard of it before?

A. Not rock pressure alone, no, sir.

Q. Have you ever read Mr. Lerch's testimony that is in this case now from the United Case?

A. No, sir.

Q. Didn't you ever interest yourself in that?

A. I glanced through some of it and I don't remember anything like that.

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Q. Well, you mean to say you glanced through it and [fol. 2200] missed that?

A. I didn't have any occasion to read it.

Q. Well then, what occasion did you have for glancing through it?

A. I was looking for some other things that I thought might be back in that testimony.

Q. Do you mean to tell this Commission that you, at the head of that department of geology in the Columbia Engineering & Management Corporation, never heard that Lerch applied what you call Blundon's theory in the United Case?

A. I don't know what he did, no, sir.

Q. You mean you never heard about it?

A. I may have heard about it, but——

Q. Well, but did you hear about it?

A. I don't know that it was there, no, sir.

Q. Never considered it, whether it was right or wrong?

A. No, sir, never was discussed with me whether it was right or wrong.

Q. Never discussed with you?

A. No, sir. I am not in the depreciation department, and have nothing to do with it.

Q. I guess that is so. I wonder what you do do; what is it you do do?

A. I organize the geological departments for the several groups of the Columbia system, and I consult with them about the matters that come up in their departments, make suggestions concerning the operation of the department.

Q. And you tell this Commission that you came into this case and on to this witness stand without knowing that Lerch, for the United, a part of the Columbia System, in the West Virginia case, did not use that method of depreciation?

A. I did not know that Lerch used that in the West Virginia case, I don't know anything about the West Virginia case.

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[fol. 2201] Mr. Turner: We over here at this table don't know it either, so put us down with the rest of the ignorant.

Mr. Butler: Well, one at a time, gentlemen:

Q. You say that is not the way to depreciate gas well construction?

A. I say that is not the way to depreciate it, yes, sir.

Q. How do you know it isn't the way?

A. Rock pressure alone or in any other manner, in my opinion, would not be the way to depreciate gas well construction, and I am not testifying on depreciation. Rock pressure is a good yardstick for reserves, but you have to have other information to go with it, gas reserves.

Q. Why? All you have got to have for your reserves is your initial and your present and say five years production.

A. Oh, no, it isn't; no, it isn't.

Q. Do you know how Mr. Davis calculated down there?

A. No.

Q. How do you calculate, what do you have to have to measure reserves?

A. To determine reserves?

Q. Yes.

A. I like to have lots——

Q. I don't mean what you would like to have, but what do you have to have?

A. All right, I have to have the initial rock pressure, the present rock pressure and the measured amount of gas that has been taken out during the fall or decline in pressure to determine the amount of gas produced per pound of pressure decline, then multiplying the original pressure by the production per pound of decline, you can determine what you hope to get from that well providing a large number of wells are not drilled adjacent to it, thus robbing

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[fol. 2202] it of some of its reserves.

Q. Do you know that Mr. Davis took five years' production and was satisfied with that?

A. I don't know it.

Q. You don't think that is adequate?

A. It is according to which five years he took.

Q. Immediately preceding the time?

A. That would all depend on the age of the wells and the stage of the decline curve the field was in. If the five

years occurred at the beginning of the development of the field and the field was still in the flush production period you would have a different yield per pound drop indicated on a composite curve than you would in a settled production period, and I prefer to have settled production periods to determine the amount of gas produced per pound of decline.

Q. Were you asked to calculate the reserves in Number 1 here?

A. No.

Q. Made no attempt to do that?

A. No.

Q. Could do it?

A. Yes, I know approximately what some of these fields have done.

Q. Well, you could reach a conclusion that would satisfy you as an expert geologist?

A. Yes, sir.

Q. A result, of course not absolutely accurate, might be a little one way or the other, but it would be a matter, you think, of substantial correctness?

A. Yes, sir.

Q. In many of these matters, there is no way of saying that you have reached absolute accuracy?

A. That is right.

Q. Now, when you come to compare wells in the same pool or even on the same large lease, you have wells of very different characteristics, don't you?

A. Yes, sir.

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[fol. 2203] Q. Well, I observe that Mr. Davis in the West Virginia case in calculating reserves tried to get those wells that were comparable, brother or sister wells, so to speak, and I think he divided his wells up in the United into say some hundred different groups. Now, would you do that if you were calculating reserves?

A. If I were calculating reserves on Number 1 acreage, I would probably take the areas divided up into pools or similar conditions, yes, sir.

Q. Yes, get back to that. In other words, in comparing one gas well with the other, you want to be fairly certain that they belong to the same class?

A. You want them in the same class, you want them in the same sand and you want them in the same pool.

Q. But even in the same pool, in the same sand, you get varied groups?

A. Yes, sir, as shown right here on this curve that you were speaking about, Well Number 4009 had an initial production natural of 2889 thousand cubic feet, and well Number 4252 had a natural initial open flow of 221,000, after the shot it had an initial open flow of 611,000 cubic feet. That shows the difference in sands just 1200 feet away; one had to be shot, the other did not.

Q. There are some pools where the rock pressure is least center, aren't there?

A. You could have that condition if the——

Q. That isn't my question.

A. I can't mention any pool that has a rock pressure least in the center. It would probably be due to operations development and withdrawals if that condition exists.

Q. You don't think Mother Nature left alone would perpetrate that sort of a joke?

A. Not in the same sand with the same texture, no, sir,

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[fol. 2204] and operated——

Q. Well——

A. Mother Nature would not.

Q. I am talking about a pool. I don't know whether sand changes in texture. I am talking about a pool with the same sand. Now, about the texture, I don't know anything about that.

A. Well, that is the thing we have to guess at. The texture will have a whole lot to do with how fast the gas will come in and how high the pressure will be at times.

Q. Well, very good then, let's go back before we indict Mother Nature. If I understand you, the thing about which I speak might happen in the same pool with the same sand if the texture of that sand changed?

A. Yes, sir.

Q. All right then. If the Commission asked you to depreciate gas well construction, how would you answer them and how would you do it, what formula would you give them?

A. I am not testifying on depreciation.

Q. Well, but you said, you did testify, you said the other method of depreciation was not correct.

A. Well, if I were asked to——

Q. Well, yes, I am assuming that they ask you to do that.

A. I would take observed depreciation, condition.

Q. Observed depreciation of what?

A. Of what?

Q. I am not talking about equipment; I am talking about, what shall I say, the hole in the ground of which Mr. Weymouth spoke.

A. Observed depreciation of the hole.

Q. Observe the hole?

A. The usefulness of the hole, yes.

Q. Although you might conclude that nine-tenths of the gas that ever could come out of that well had been taken out, you would still give the hole, if it were in good shape, a hun-

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[fol. 2205] dred per cent.?

A. Yes, sir.

Q. In other words, you and Mr. Weymouth just happen to agree, do you?

A. We do from different angles, yes, sir.

Q. I don't see the different angles, I see the treatment. What are the different angles, Mr. Pepperberg?

A. I am not an expert in depreciation.

Q. No.

A. But I consider the well and its equipment used and useful as long as it will produce gas.

Q. Well, Mr. Pepperberg, do you mean to say to the Commission that you couldn't fairly take this Section 3 which you have outlined on your Exhibit 183 and tell the Commission what per cent of the total gas that will ever come from one of those wells has already been removed?

A. I could tell the Commission the per cent. of gas and the per cent. of depletion if I can get the measured gas that has been taken from that Section.

Q. Well, have you inquired how far back you can get it?

A. No, sir.

Q. Do you want all the gas that has ever been taken out?

A. All of the gas.

Q. So you don't agree that four or five years would enable you to do that?

A. Well, I could project my curve back; we can estimate backwards as well as forwards, and the guess isn't bad.

Q. You can just do anything with those curves, can't you?

A. Yes, sir, just like you can with any other figures. These are just figures on here. These curves are just plotting of figures, kindergarten picture of the figures.

Q. Suppose you reported to the Commission in respect

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[fol. 2206] to one of those wells in that section that 80 per cent. of all of the gas that would ever be taken out had already been taken out, you would still give your hole its observed depreciation?

A. The 20 per cent. remaining would be a matter of volume and that would have to be determined before I could answer your question. If the 20 per cent. remaining were a negligible quantity, I wouldn't consider that the well would pay out again from that point in the decline curve. But if the 80 per cent. — had been produced in the past was a very large quantity, then the reserve remaining might be more than sufficient to pay for the cost of drilling two or three wells to the same depth.

Q. Is all of your Section 3 Number 1 acreage?

A. I don't know how it is classified.

Q. Well, how do you classify it?

A. I didn't classify it.

Q. Please classify it for me?

A. I can't classify Section 3, Washington Township, Holmes County, without the surrounding leases, and development and without lease lines.

Q. Well, now, I will be fair with you. I realize that to read a lot of data isn't fair to an expert, because in a sense he wants to visualize it. You have the company's maps. I wish you would look that up around there tonight and just tell me how you classify it.

Mr. Turner: Jim, Mr. Davies got all of the maps so that you have sort of got us on the hip.

Mr. Butler: Didn't you have two copies?

Mr. Turner: No, he got them all. The company may have some other data, but we haven't any.

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[fol. 2207] Mr. Butler: These are joint.

Mr. Turner: These are joint, I understand, but you have got the joint.

Q. In determining reserves as you have indicated, do you apply Boyle's Law?

A. The principles of it, yes, sir.

Q. I imagine you have made a great many estimates of reserves?

A. I have made a few.

Q. Where?

A. Well, I have made them in Ohio, a few, a few in West Virginia and Kentucky, several in Kansas and Oklahoma and Texas, some in Wyoming, Mississippi.

Q. In Kentucky, West Virginia, Ohio, were any of them in rate cases?

A. No, sir.

Q. Do you know the relation between your calculation of reserves and how that runs, how your line proceeds with the line that results from the varying and successive rock pressures?

A. Read the question, please.

(Question read.)

A. For groups of wells, individual wells or averages?

Q. Yes, for a pool, for a pool, that would be proper.

A. When corrected, yes, sir.

Q. What is the relation?

A. Practically parallel.

Q. Practically parallel?

A. Not necessarily straight.

Q. No, but practically parallel?

A. Yes, quantity and pressure.

Q. You speak about the age that Mr. Blundon gives to these wells. In depreciating them, in reaching an estimate of their present condition, in determining the depletion for that purpose, do you understand that that involves a calculation of the remaining age of the well?

A. I believe you are using depreciation and depletion

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[fol. 2208] there the same, I don't use them in the same sense.

Q. Well, I am frank to say that I don't quite know when you cross the line and when you go back again.

A. Well, perhaps I didn't understand the question. Please read that.

Q. Well, put it differently, put it different, you speak of Blundon's method; it is Blundon's method of depreciation, isn't it?

A. As I understand it, yes, sir.

Q. Yes, and that is what you are talking about, and he reaches his results by determining the per cent. of depletion?

A. Not per cent. of depletion. He determines the per cent. of depletion in rock pressure only, not reserves.

Q. Exactly, and translates that into depletion?

A. And translates it into depreciation.

Q. All right. Now, when he determines that the well is a certain per cent. used, does he say anywhere that the well will go out in so many years?

A. A. No.

Q. But you do, you say it for him, don't you?

A. No, I don't set it up for him.

Q. You say it for him?

A. He states that the well is so many years old, average age of well. He also gives the average per cent. of depreciation per year, and that figure gives me the number of years in the future, measured by the past.

Q. If, dependent upon what conditions?

A. If you don't lock the well up or the field up.

Q. Yes. You can't ride your horse if you lock him up in the stable all the time.

A. I agree.

Q. Do you know of anyone who has ever used this

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[fol. 2209] method of determining the present condition of the well that has tried to say that the well would be exhausted in a certain number of years?

A. The well would be exhausted, you are not talking depreciation, you are talking reserves, do I understand you right, Mr. Butler?

Q. No, I am using this depletion as leading to depreciation. You speak of Blundon's method here, and I have nuderstood you to say for him that he declares that these wells will go out in a certain number of years.

A. That conclusion is reached from the figures presented on Page 9. City Exhibit 74. where he gives me the age of the wells and the rate average per cent. depreciation per year, on the assumption that the wells will be operated

in the future, in the line in the future for practically the same number of days that they have been commonly used per year in the past, and in order to reach the 100 per cent depreciation, it is merely a matter of extending the line beyond the basic date to the zero point.

Q. Mr. Pepperberg, I want to read something that occurred in the United Case when Mr. Lerch was on the stand, I may want to read several——

Commissioner Bricker: Can you finish this examination this evening?

Mr. Butler: No.

Commissioner Bricker: I think if it is agreeable then we might adjourn at this time. We have got a few things we want to clean up upstairs.

Mr. Turner. Yes, we know that Mr. Weymouth is expected back tomorrow for cross-examination and you will take him then, won't you, Mr. Butler? We arranged to have him back here.

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[fol. 2210] Mr. Butler: I know you did.

Mr. Turner: I want to give you a graph that we may use for Mr. Winans when we put him back on the stand. I think it will be Company Exhibit Number 172-B.

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[fol. 2211] Direct.

Examined by Mr. Turner:

Mr. Butler: Do you have any more exhibits for Mr. Pepperberg?

Mr. Turner: A lot of them. Oh, I beg your pardon. I thought you were addressing me.

Mr. Butler: I was. Have you any more exhibits?

Mr. Turner: Yes.

Mr. Butler: Hadn't you better put them in before I cross-examine?

Mr. Turner: I thought you were going to cross-examine before, I ought not to have opened them up.

Mr. Butler: I saw him come in with a big bundle.

Mr. Turner: Will you mark this Exhibit No. 189 and this Exhibit No. 190?

And thereupon the graphs above referred to were marked for the purposes of identification respectively as Company's Exhibits Nos. 189 and 190.

Q. Mr. Pepperberg, yesterday you brought in and introduced some graphs showing the application of Mr. Blundon's theory to his page 9 of his Exhibit 74. That was in answer to what Mr. Commissioner Bricker had suggested about groups. Now, I have asked you to bring in some

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[fol. 2212] more individual wells, something to sort of answer the question propounded by Commissioner Geiger, when he asked you how you came to pick those, whether they were typical or not. Have you now graphs here showing the conditions similar to the ones in graph No. 183 for other locations in the state?

A. Yes.

Q. I hand you what has been marked as Company's Exhibits Nos. 189 and 190, and ask you to state whether they are graphs of such wells?

A. They are.

Q. Now, so that everybody in the room can hear you, start in and describe this 189 first.

A. The picture on Exhibit No. 189 shows the decline in rock pressure of wells Nos. 4042 and 4248, located in Section 17, Canaan Township, Wayne County, Ohio. These wells are situated 40 miles from the Washington-Holmes wells shown on Exhibit No. 183. The two wells pictured on this graph are 2,050 feet apart.

The highest rock pressure which was determined and recorded for each year is used in the chart, and the figures adjacent to the graph are the numbers of days each well was in the line during the particular year.

Graph A, which covers well No. 4042, was completed in 1918, as indicated on the lower scale of the chart, and on the Blundon basic date in 1929, had a rock pressure of about 300 pounds. Connecting the initial rock pressure at the left-hand side of the map, of the chart, where the point is marked well No. 4042 with a straight line, and the Blundon date of 1929, the projection shows an indicated future life, indicated at the right hand by my number marked A, and connecting the same point of this well, the initial point, with the pressure shown in 1931, a continuation is indicated

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[fol. 2213] by line A prime. Reading from the scale marked estimated future life, this well has a future life, after the Blundon dateline, of four years. On the 1931 base there would be about 4.2 years.

For well No. 4248 shown by the broken line, connecting the initial pressure of 800 pounds with the pressure at the Blundon basic date of 270 pounds, and extending the line into the future, as indicated by B to the right of the Blundon basic date, this well has an estimated future life of three years. But when we connect the initial pressure of well No. 4248 with the 1931 pressure, which is 390 pounds, the projection becomes that illustrated by line B prime and shows an estimated future life of 10 years after the Blundon basic date.

Commissioner Bricker: If you had taken it in 1927, however, it would have shown only about a year and a half?

The Witness: In 1927, yes, sir, it would have come down to 1929.

Commissioner Bricker: My question to you was whether or not you had figured out the average on enough of these to say that his theory, even though in individual cases like this is it would show a complete distortion, whether or not his theory on the average over all would also be of that type?

The Witness: I believe this is just beginning that.

Mr. Turner: That was the graph introduced yesterday.

Commissioner Bricker: Yes, I remember.

The Witness: There is another step on this of composites.

Mr. Turner: No. 187 are composites. Would you wait, Your Honor, until we can finish this?

Commissioner Bricker: That is all right. I have this that you offered yesterday.

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[fol. 2214] Mr. Turner: Yes, we have that and then we have something more on the same matter.

The Witness: The scale at the right of this graph, which shows per cent. depreciation, is to be used only for well No. 4042 and not for 4248. The hundred per cent, and the zero coinciding with the highest pressure. Otherwise, I would have had to add two scales for depreciation at the right hand side of the chart.

Q. Have you finished with 189?

A. Yes, sir.

Q. Now, take 190. First, describe the wells and the well numbers and so forth. But go ahead in your own way.

A. This shows the decline in rock pressures of wells numbers 3968 and 4079, located in Section 14, Congress Town-

ship, Wayne County, Ohio. These wells are 35 miles from the Washington-Holmes wells previously discussed, and three miles from the Caanan, Wayne County, wells, just described.

Q. In 189?

A. In 189.

Q. All right, go ahead.

A. These two wells are 650 feet apart. The highest rock pressure determined for each year was used and the figures adjacent to the graph indicates the number of days each well was used during each year subsequent to 1921. Starting the initial pressure of well No. 3968 in 1917, which was a thousand pounds, and connecting it with the Blundon basic date at 360 pounds, the future life of this well is indicated by the dashed line A and shows a future life of five and one-half years.

Q. Is that five and a half or six? There are some sixes here.

A. Six years. Connecting the thousand pound initial pressure of 1917 with the pressure of 1931, which, at that

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[fol. 2215] time was 385, the estimated future life from Blundon's basic date as shown by curve A prime is almost 11 years.

Q. Look at that again. What is it? Are you talking about A prime or B prime?

A. A prime.

Q. All right, I see.

A. Well, No. 4079 at the left side of the chart came in with an initial pressure of 750 pounds. Connecting this point with the pressure on the Blundon basic date of approximately 375 pounds and projecting line B, the indicated future life after the Blundon basic date would be 10 years. When we connect the initial pressure of well 4079 with the pressure of 1931, which was 340 pounds, the projection of line B prime indicates a future life of the same well for 12 years. In this chart the per cent. depreciation at the right is applicable only to well No. 3968.

Q. Now, how do these graphs compare one with the other. What are they? What do they show?

A. On Exhibit 189, the junior well, which is well No. 4248, has an indicated future life after the Blundon basic date a little less than the senior well, No. 4042. But using the

1931 pressures and extending into the future, the junior well, which had a lower pressure on the Blundon basic date, has an indicated future life of more than twice the senior well, or more than twice well No. 4042.

Q. Let me get that clear now. If you had taken these at the Blundon basic date, then the junior well had a life a little shorter than the senior well?

A. Yes, sir.

Q. And if you had taken them in 1931, the junior well had a very much longer life than the senior well?

A. Yes, sir. On Exhibit 190 I wish to call your attention to the fact that the graph of well No. 3968 in the year 1924

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[fol. 2216] shows that this well was in the line 208 days, while well No. 4079, which was in the line 186 days, shows a much lower pressure, although the pressures for the years were very close together. Just why that happened, I do not know. But this is the record that is in our books and it just shows some of the variations due to field conditions surrounding the properties.

Q. If Boyle's Law applied to those two wells, you would expect the 186 day well, that is 4079, to have a higher pressure than well 3968, the older, which had had 208 days, would you not? Or, if I have not stated it correctly, you state it correctly, please.

A. There is a distortion in the rock pressures here that is hard to reconcile in a picture. The curve for well No. 3968, if corrected, should be rather a smooth curve. Just why these irregularities are here, we would have to get the history of just what was going on in the vicinity of those two wells.

Q. You mean through drilling?

A. Yes, through drilling, and whether the wells were in at all times, whether they were shut in at times. It is a matter of conditions in the reservoir and the wells. Nevertheless the curves of the two wells do coincide closely in the years 1927 and '28, where the junior well, 4079, crosses the senior well, 3968 again, and if the curve was smooth and followed the hyperbolic curve of rock pressure decline, we could average those two wells and arrive at a general conclusion.

Q. But you have been unable to explain the distortion in 24?

A. I haven't the history on that, not with me.

Q. You would need more than those two wells; you need the field, don't you?

A. Yes, sir. Going back to 9638, this would show an

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[fol. 2217] extinction point in 1921, whereas, as a matter of fact, the extinction point would be in 1935.

Mr. Turner: We offer in evidence Company's Exhibits Nos. 189 and 190.

Commissioner Bricker: They may be admitted.

And thereupon the graphs above referred to were offered, introduced and admitted in evidence on behalf of the Columbus Gas & Fuel Company, and are herewith submitted, marked Company's Exhibits Nos. 189 and 190, and made a part hereof.

Mr. Turner: I would like to have these marked 191 and 192, please.

And thereupon the graphs above referred to were marked for the purposes of identification respectively as Company's Exhibits 191 & 192.

Q. I hand you what have been marked as Company's Exhibits Nos. 191 and 192, and ask you to state what they are, taking up 191 first.

A. Exhibit No. 191 shows the decline of rock pressure due to the removal of gas from the Clinton sand, Medina and Wayne Counties, Ohio. The rock pressures used were the average of the highest rock pressures determined for each year. The figures adjacent to the graph indicate the number of wells gauged to secure the average results plotted.

Q. Just tell us how many wells were used in this graph?

A. At the left hand side of the chart one well was used and drilling proceeded in the field. Additional wells were added until the year 1923, when there was a total of 75

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[fol. 2218] wells. In 1930 there were 78 wells, and 1931, 71 wells. This is a composite, showing the averages for the number of wells indicated at the several points in the several years mentioned. The first well drilled had a pressure of 1000 pounds in 1911. That was probably the pressure

that was recorded on the well log. The pressure recorded in 1912, highest pressure for that year, was 1075.

Q. How do you account for that, if you can account for it?

A. The well was probably open while drilling in and tubing and the pressure at the base of the well, at the bottom of the well, in the vicinity of the bottom of the well, was sufficient that consequently after the well had been closed in for some time and the pressure built up from the adjacent territory, the higher rock pressure developed.

Q. All right, go ahead.

A. The decline indicated for well number one to 1913 is a rather sharp decline, and is common in all flush production curves.

Q. Just what do you mean by flush production curves? Explain that, please.

A. In the early life of a gas well, there is a period where the well can produce a little more gas than it can later, because the pressure is higher in the well. And this sharp decline between 1912 and '13 indicates two things. One, that probably this company was called on to drill other wells nearby at a faster rate than some of the wells which came in later. Consequently the drop in rock pressure indicates the taking out of a large volume of gas.

Q. In 1913 we find the well had about 750 pounds. Before Number 2 well is drilled in we find it up around 800. Now, does that curve there indicate a reflection of the two

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[fol. 2219] going in, or is that simply a reflection of the Number 1 getting a higher pressure again for some reason?

A. That curve is distorted in that way because the point in 1914 is the average of the rock pressure of the second well, plus the rock pressure of the second well plus the rock pressure of the first well, and tied together by a straight line.

Q. Does that apply to the five wells, the three additional wells in 1915 and to the nine additional wells in '16?

A. Yes, sir.

Q. And the 11 additional wells in '17?

A. Yes.

Q. And so on down?
A. Yes.

Mr. Butler: May I ask one question there. There are Number 2, as I understand it, the two wells were platted year by year up to that time; and one would probably be above that and the other below it?

The Witness: This is an average, yes, sir.

Commissioner Bricker: I get you.

Q. Well, let us understand each other, now. In 1913 there was only one well there?
A. Yes.
Q. In 1914 there were two wells?
A. Yes.
Q. In 1915 there were five wells?
A. Yes.
Q. All right, and so on down the whole line here, indicating in the years the number of wells that were here?

Commissioner Bricker: Placed at the highest rock pressure throughout the year for the whole number of wells?

Mr. Turner: Yes, for the whole number of wells.

The Witness: That is right, yes. Now, if we would connect the initial rock pressure of Number 1, which was a thousand pounds, or its highest pressure in 1912, which

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[fol. 2220] was 1075 pounds, with the rock pressure shown for 54 wells in 1920, the future life of those 54 wells from 1920 would be a straight line, which, if extended, would go to about 1925. Additional wells were drilled, as indicated here, to the end of this curve, and the curve continually flattens. Consequently, if you connect the average points, using the initial pressure, with the last pressure in 1931, the future extension for the group of wells would be beyond the length of this chart.

Commissioner Bricker: Six or seven years further on then?

The Witness: Yes, sir. This chart is merely the decline in rock pressure and has nothing to do with the volume of gas produced per pound of pressure decline. It is a composite chart and shows a few irregularities, ups and downs, that are common to all fields, and includes all of the wells that we have drilled in this area for which we have con-

tinuous rock pressure records that I could lay my hands on.

Q. Now, take the next one, which is No. 192.

A. Exhibit No. 192 shows or gives the same information as that shown on Exhibit No. 191, except that the wells are located in Morgan Township, Knox County, Ohio, and except the fact that while on Exhibit No. 191, there are other 71 wells, in 1931, Exhibit No. 192 shows but 7 wells for which we have records for the Knox County field. I wish to call your attention to the years '15, '16 and '17, for which I have no rock pressures. Consequently I have to connect the eight wells in 1914 with the record we had in 1918, merely jumping a gap to connect the lines. If we connect the initial pressure of 700 pounds with the pressure in 1912, 5441

[fol. 2221] where we had 33 wells in the curve, the pressure extension would reach extinction about 1915. However, if the initial pressure of 700 pounds is connected with any point between 1921 and 1927, the extended future life for the curve is much greater, going beyond 1931.

I wish to mention that in 1926, the six wells had a pressure of about 60 pounds, and seven wells had an average pressure in 1927 of 75 pounds, showing the same upturn for that group of wells as indicated in the first exhibit we put in on this subject.

Mr. Turner: We offer in evidence Company's Exhibits Nos. 191 and 192.

Commissioner Bricker: They may be admitted.

And thereupon the graphs above referred to were offered, introduced and admitted in evidence on behalf of the Columbus Gas & Fuel Company, and are herewith submitted, marked respectively Company's Exhibits Nos. 191 and 192, and made a part hereof.

Judge Geiger: I take it you draw the conclusion from these graphs that the number of wells you take into consideration has no reference to rock pressure.

The Witness: The number of wells indicated there, Judge Geiger—that is the number that we divide by to get the average rock pressure for that particular point on the curve.

Commissioner Geiger: In graph 191, between 1913 and 1916, 13 wells are added. The graph shows that the pres-

sure increases from 725 to 830. Then, as you proceed along
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[fol. 2222] that graph until you have 71 wells, which is not the highest number, but having 71 in 1931, you have the rock pressure indicated of 225 pounds. So that we might conclude that the number of new wells that may be attached or may come within the limit of your graph here hasn't anything to do with the rock pressure?

The Witness: No, sir, this curve indicates the rock pressure in that reservoir in that field and shows the decline in rock pressure of gas, whether over one well or a dozen wells. This is a composite graph, showing the decline in rock pressure in the field, due to the drilling and withdrawal of gas, while the curves previously submitted showed the same information for individual wells.

Commissioner Geiger: The supposition is that these wells are all drawing from the same fields.

The Witness: Yes.

Commissioner Geiger: And are connected in some way underground.

The Witness: Yes.

Commissioner Geiger: All in the Clinton sand?

The Witness: Yes.

Commissioner Geiger: All in the same pool?

The Witness: Yes.

Commissioner Geiger: That just amounts to a conclusion that the more wells you might drill in any one pool, giving exit to an increased amount of gas, the more you decrease your rock pressure?

The Witness: Yes.

Commissioner Geiger: Through the entire field?

The Witness: Yes, it influences the decline.

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[fol. 2223] Commissioner Geiger: Does that indicate that in the subterranean channels those pools are connected so that gas might flow out of one well into another as wells are drilled?

The Witness: There is interference between wells. You will note that on Exhibit 191. In 1911 the rock pressure was 1000 pounds, and when the 25 wells were completed in 1917, the field pressure in the reservoir was about 640 pounds. I cannot just tell you how closely those wells are spaced, but that decline indicates withdrawals over an area

served by the 25 wells and probably other competitive wells that I have no record on.

By Mr. Turner:

Q. Mr. Pepperberg, you spoke of reservoir. You spoke of sand. I wish you would check up on sands. Is the sand what we ordinarily think of as building sand, or does it look like a rock?

A. It is sandstone.

Q. Of what does the reservoir consist?

A. The porosity in the sand is similar to the air spaces in the grains of sugar in a piece of sugar, in a piece of sugar like you put in your coffee.

Q. Lump sugar or loaf sugar?

A. Yes.

Commissioner Bricker: We had an exhibit over here.

Mr. Turner: Yes, we had one here at some time.

The Witness: It is a hard rock.

Q. When you speak of reservoir, the layman thinks of a space void of solids?

A. Yes.

Q. Is that what you are talking about?

A. This is a solid with a bunch of small connecting holes in it that are capillary in size.

Q. You have to discover those holes through a magnify-

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[fol. 2224] ing glass?

A. In most formations you cannot see them with the naked eye or with a hand lens.

Q. You must use a microscope?

A. Yes.

Mr. Butler: Mr. Turner, there are no laymen in this case any more.

Mr. Turner: Well, I thought I was.

Commissioner Bricker: We can all go out and start a gas company now.

Mr. Turner: That reminds me, I forgot to ask Tom Weymouth if you could just give a formula to a man and he could start a gas company. I was going to ask him that.

Commissioner Bricker: Does this stone become channeled through the taking out of gas as it does in the case of an oil well?

The Witness: As it does in the case of oil wells?

Commissioner Bricker: Yes.

The Witness: This is all hypothetical.

Commissioner Bricker: Yes, I understand. That is true.

The Witness: Near the bottom of the well hole, when a well is shot or when the gas is first tubed, it is possible that along the joints and adjacent to the well wall fragments of the sand are blown out. I would hardly call them channels unless the well came in with tremendous pressure. It would just be the flushing out of these large capillary tubes that might have some uncemented material between the grains of sand. We do know that the drilling in of a well next to a well that is a good producer, is liable to show its effect on the senior well by lowering the rock pressure in the senior well. We do know there is interference between wells if they are close together. Production records show

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[fol. 2225] that.

Mr. Turner: That is all.

Commissioner Geiger: Is there any similarity at all between the rock pressure for natural gas and the rock pressure for oil? I assume that when an oil well is drilled in, the rock pressure may be very high, and as time goes on and oil is taken from that well, the rock pressure would drop, or that if adjacent wells are drilled which effect the territory that is being drained by that one oil well, the rock pressure of the whole pool will go down. Now, is there any similarity in any way between gas and oil in rock pressures?

The Witness: There is similarity. The decline curves for a gas well are the same shape as the decline for oil wells in the same district. In fact, in many places the same sand carries oil and gas, the gas being usually above the oil, higher up. The curves and the forces are similar. The expelling force of oil in many cases is due to the gas that is dissolved in the oil, and that helps lift the oil to the surface, when we have flowing oil wells. Gas is soluble about 50 per cent. in crude oil—50 per cent. of its volume.

Commissioner Geiger: Does that gas in solution come out with the oil and is what is known as casing head gas?

The Witness: Not always known as casing head gas. It is casing head gas, but the soluble gas lifts this oil by expansion, and when it reaches the surface, they put the oil through a separator, where the oil is dropped out and the gas is taken off of the top. That is the casing head gas that is used for making gasoline.

Commissioner Geiger: One other question. Has there been an analysis over a sufficient period of years between

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[fol. 2226] the flow of gas and the flow of oil to enable you to calculate what the future flow of gas will be, comparing it to future flow of oil in the same sort of sand; that is, when your curve flattens out for oil, the oil well will continue to be serviceable for a great number of years after the curve has flattened and gotten to a low pressure. Would that indicate that when the curve for gas has flattened that it will continue for a long period of time with the decreased rock pressure and the flattened curve?

The Witness: It will if you produce at the same rate that you do in previous years or that you do with oil. In producing oil, except under present business conditions, when they close in fields, it is customary to keep the well on the pump just as many days in a year as possible. In producing gas we have a big withdrawal in the winter time, and a small withdrawal in the summer time, and it is an intermittent production. Consequently, as indicated on Exhibits 189 and 90, a well might be in the line 208 days in one year and 136 days in another year. Now, if you were withdrawing your gas at the same rate, if you had these wells on the line 365 days a year, against the same kind of line pressure, theoretically, you would get a smooth decline curve similar to the decline curve of the oil.

Commissioner Geiger: When you shut in an oil well, due to the condition that we have now, does that show then a variation in the curve of decreased rock pressure? Would it recover its old or a higher rock pressure by virtue of having been shut in?

The Witness: They will build up pressure in a similar

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[fol. 2227] manner.

Commissioner Geiger: They do?

The Witness: They will build up pressure in a similar manner if they are closed in.

Commissioner Geiger: Showing the irregular line that sometimes the gas well shows by reason of the fact that it is not omitting gas every day in the year?

The Witness: Yes, the depleted pressure in the vicinity of the hole will be built up by pressure from the reservoir some distance from the hole when you close it in.

By Mr. Turner:

Q. Following Judge Geiger's question, will not the rock pressure taken depend upon the number of days the well has been closed in, or be influenced by it?

A. Yes.

Q. In other words, you could not get the picture of two adjacent wells if they had not been closed in the same amount of time?

A. And under the same conditions when they were closed in. Judge Geiger asked a question a moment ago that I believe is illustrated on Exhibits 191 and 192. The rock pressure for the Medina-Wayne county field on 191 in 1931 is above 200 pounds, that is, for the reservoir pressure, average pressure, while on Exhibit 192 in Knox County, the pressure for the reservoir is about 175 pounds. The pounds in neither case indicate reserves. The 220 pounds for the Wayne fields, Wayne County fields, does not necessarily—I say "necessarily" theoretically—indicate a greater reserve than the lower pressure in the Knox field at that point. Personally, knowing a little about the Clinton sand in Ohio, I would assume that the higher pressure indicated a higher reserve, but we have low pressure fields that have a higher content of gas in them than high pressure fields

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[fol. 2228] contain.

Commissioner Geiger: You might say that a gas pool very small in its ultimate gas content, might have a much higher rock pressure than a very much larger field would show.

The Witness: Yes.

Commissioner Geiger: Consequently, the rock pressure does not indicate how much gas there is left?

The Witness: That is right.

Commissioner Geiger: Now, you have advised in buying and selling of gas territory, have you not?

The Witness: I have advised in buying.

Commissioner Geiger: Not in selling?

The Witness: No, sir.

Commissioner Geiger: Well, you don't take into consideration then in making up your report to the contemplated purchaser, rock pressure at all?

The Witness: Oh, yes, we use rock pressure. We use production in connection with rock pressure and we use the thickness of the sand and the estimated porosity of the sand.

Commissioner Geiger: But you would never make a graph like these, 191, 192, and they would not show you anything as to the value of land, gas producing land?

The Witness: I would make graphs of this sort to be used with other factors, but not to be used for depreciation.

By Mr. Turner:

Q. Would you consider rock pressure without volume?
A. No, sir.
Q. That is what Mr. Blundon has done, is it not?
A. Yes.

Mr Butler: Mr. Turner, with these four exhibits——

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[fol. 2229] Mr. Turner: You want time?

Mr. Butler: I shall watch my step more carefully. But I am talking for the record. It will be necessary for us to make a careful investigation as we did the other day. If they are as successful, I hope, though, they will not produce four more. But there are a few questions I can ask. But it does take time, first, to understand these, and, second, to know all of the facts. There are some things I can ask about.

Cross-examination.

By Mr. Butler:

Q. Mr. Pepperberg, in your Exhibit No. 189, you do not give the number of days annually the well was in use back of '22?
A. That is right.
Q. You are unable to get those?

A. I couldn't get them this morning, no, sir. I don't know whether they exist or not. The books that I had this morning just went back to 1922.

Q. You didn't have time to trace them back to see whether they were?

A. No, sir.

Q. If you should be given a vacation tomorrow, you probably can put those on, can't you, back of '22?

A. If I can locate them, yes, sir. I doubt whether they are that far back, because I asked for all information there was available.

Q. And that is true of 190?

A. That is true of 190. You will notice that on 189 well No. 4248 was completed in 1922, and the days in the line coincide with its completion, but you will notice then on Exhibit 190 that well No. 4079 was completed in 1919, and I had no pressures to 1922. The books at my disposal

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[fol. 2230] started in 1922, and I cannot tell you whether the days in the line for individual wells, are available prior to that date.

Q. But the books do always show the initial pressure?

A. The initial pressure, yes. The pressures are given here just as I found them on the books or the log.

Q. Now, take 189, with your two wells. In what kind of a location, in what kind of a pool, are those wells located?

A. Those wells are completed in the Clinton sand, and they are 2050 feet apart.

Q. Wells around them?

A. Yes, there are wells around them.

Q. Is it a very definite pool?

A. You mean the outline of the pool?

Q. Yes.

A. I think so.

Q. Where are these wells with reference to the center of the pool?

A. I cannot tell you that without the maps.

Q. You did not have time to put the location on as you did in your other?

A. No, I did not. You have exhibits here that show all of these wells on the maps.

Q. Yes, that is why I have to take some time. The fact that in '89 the junior well came in at a higher pressure

than the then pressure of the senior well, a difference of almost 300 pounds, is of no particular significance?

A. No, I think not. The decline curve for 4248 is rather rapid between the years 1922 and '25, and in '25 the junior well has lower pressure than the senior well, as indicated by the dotted line. The junior well is 2050 feet from the senior well, and naturally, unless it was very closely drilled territory, the rock pressure initial rock pressure of the

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[fol. 2231] junior well, would not be the same as that for the senior well.

Q. But in a proper time it would seek the same level?

A. It does on this curve.

Q. And that indicates to you that they are fairly comparable?

A. Yes, they are comparable.

Q. But after they reached the period of comparability, did you try to account for those variations?

A. No, I just took the record as is.

Q. If you had searched the history of the pool, you could probably give us some fair idea of what caused that?

A. That means a study of probably 250 or 300 wells. In time one could do it.

Q. You did not begin early enough for that?

A. You did not give me enough time. I think your question is answered partially, at least, in the composite curve on Exhibits Nos. 191 and 92, that they seek a common level when you average them out there.

Q. Well, are those the same wells?

A. Some of the wells shown on Exhibit 191, which is titled "Medina and Wayne County" are the same wells shown in the Wayne County graphs, Exhibits 189 and 90.

Q. In other words, well 4042, well 4248, 3968, 4079, are found in 191?

A. Yes.

Q. That is, their life histories are included in that?

A. Merged with that group of wells.

Q. And what is your answer? You say you think that is fairly answered when you find that they merged into a——

A. Do I think what?

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[fol. 2232] Q. You said you thought my question was answered by referring to 191 and 192, and I did not catch why that answer was made.

A. Well, you asked me whether well Number 4042 and 4248 reached a common base approximately between 1925 and '29, and that common base is shown in the composite of 191 for more wells than indicated on Exhibit 189.

Q. Well, take 189 and take well 4042 in 1928; what was its rock pressure?

A. 315 pounds.

Q. In '28? 189?

A. Exhibit 189, well 4042.

Mr. Butler: Yes.

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[fol. 2233] Mr. Turner: In '28, the question is.

The Witness: In 1928, there is 315 pounds.

Mr. Turner: Do you note the figures 287?

The Witness: 287 is the number of days it was in the line.

Mr. Butler: You get the other by——

Mr. Turner: I am just pointing to where it crosses the line there.

Q. Well, now, turn to 191, and what is the composite for that year?

A. 260 pounds for seventy-seven wells.

Q. What does that mean?

A. That means that, adding all of the highest rock pressures for those seventy-seven years and dividing by 77, gives you an average rock pressure for 77 wells for that year of 260 pounds.

Q. And that variation of the composite from the individual is nothing that is particularly startling?

A. No.

Q. How many other wells were there in that pool that might have been added if you had had time and had had their life histories?

A. I don't know how many foreign wells are in the field. I used everything we had or every well we had in that district.

Q. In other words, in 191 you used every well you had in that district?

A. All that they could get records of extended back.

Q. Oh, yes, I understand that. But how many were there? Suppose the records for every well had been available, how many were there that you could have included in that?

A. I don't know.

Q. How?

A. I don't know.

[fol. 2234] Q. A large number? 5454

A. Sir?

Q. A large number?

A. Oh, there might have been 100 wells instead of 71 in 1931.

Q. There might have been 150?

A. There may have been. I couldn't say. I couldn't count them.

Q. They just brought you these. They said in that district, they had records of so many?

A. Yes, sir.

Q. You did not think that it was a matter of any moment to worry about those for which they had no records?

A. You must appreciate that between 1911 and '22 some wells have been abandoned. During the same period, wells have been completed. And this is a fair representation of conditions in the reservoir in Medina and Wayne Counties.

Q. Let me take 192. Where is that pool in Knox County? You say Morgan Township. Is that a distinct pool?

A. I don't know that it is a distinct pool. It may connect with other pools in other townships.

Q. Well—go ahead, I didn't mean to interrupt you.

A. For Morgan Township, Knox County, this curve represents the reservoir pressure as of the different dates indicated.

Q. For those wells?

A. For these wells.

Q. Now, in what you would call the pool to which those wells belong, how many total wells were there?

A. I don't know the number of wells, total number of wells. I have not counted them.

Q. Did that Well Number 1 continue on through that graph?

A. I can't answer that without looking it up.

Q. How many of the twelve wells, the next number, continue on through the graph?

A. I can't answer that.

5455

[fol. 2235] Q. And in 1914, you ran down to eight wells. Were those eight wells made up of the wells that you had considered in the prior years?

A. Some of them, yes, sir.

Q. How many of the eight?

A. I assume eight.

Q. What had become of the other wells?

A. Apparently they had been abandoned.

Q. Well——

A. I can't answer that without looking it up.

Q. You didn't try to find out?

A. No, I didn't.

Q. You said there was nothing available there in the way of pressure from about the middle—oh, well, I guess from '12—no, from the middle of '14 to about the middle of '18.

A. For the years '15, '16 and '17, we have no rock pressures of wells in that district.

Q. What did you draw the line across there for?

A. Why did I?

Q. Yes.

A. To connect the condition of 1918 with the condition of 1914.

Q. Well, you started with one well in '18, didn't you?

A. That is right. That is the only record that was available for 1918.

Q. There might be only one man to shoot, but that is no reason why you should shoot him.

Mr. Turner: He thinks it is just as important, doesn't he, the fellow that is shot?

Q. Did that one well belong to what you had already considered?

A. I assume so.

Q. Oh, well, do you know?

A. I cannot answer without looking it up.

5456

[fol. 2236] Q. You don't know the age of the well or anything about it?

A. No, sir.

Q. Well, I suppose now that on your work sheets you can give us the numbers of the wells that you considered in each of those; you can give us the number of the one that you started with, the numbers of the twelve, of the twenty-three——

A. Yes, yes, we have that.

Q. Well, I wonder if we might have those work sheets so that we can make some analysis of what you have done?

A. Yes, sir, certainly.

Q. And also of the wells in 191? You think your work sheets will show which of the numbers have been discontinued or abandoned?

A. I am not sure whether the date of abandonment is shown or not. If there is no rock pressure extended out beyond a certain year, the well has probably been abandoned. If the rock pressures go out to the side of the sheet, the well was still in use.

Q. In neither 191 or 192 can you give us the approximate number of wells that during that period were drawing from the pool?

A. The average number?

Q. No, the number from time to time?

A. Well, in Exhibit 191, there were at least 71 wells.

Q. Oh, I know, of course. Of course, that is self-evident, Mr. Pepperberg. And another place, I think it ran up to 76, didn't it?

A. 79.

Q. Of course, now, you do not consider that that is an answer to my question?

A. I do not know the number of wells in the pool, Mr. Butler.

[fol. 2237] Q. Haven't any idea? 5457

A. No.

Q. Whether it is large or small?

A. No.

Q. I notice in 192 that you stop your line in '27; the others you seem to have carried out to '31. Do you know why you stopped in '27?

A. I imagine that was because that was as much time as our office force had to tally these various items. We

have been pretty busy lately. Now, referring to that Number 1 well in 1918 that you took exception to——

Q. Which exhibit is that?

A. 192.

Q. No, I did not take exception to the poor thing.

A. Well, you seemed to take exception to one well being there. It falls in line on the curve and indicates the pressure of the field at that date fairly well. If there had been five wells there, it might have been a little bit lower.

Q. If you have—and this is a question I think you have heard me ask—if you have a little pool and the well and you use that one well to drain the pool, as you go on year after year, what happens to the volume of reserve in that well?

A. Draining through one well?

Q. Yes.

A. It will be depleted.

Q. And you would get a line corresponding to the amount that you take out?

A. You get both a pressure decline and a production curve.

Q. Well, what would be the relation between the production or reserve and the pressure decline?

A. If withdrawals are made 365 days a year——

Q. Exactly.

A. Against a uniform line pressure, the well will produce approximately the same amount of gas for each pound of pressure decline throughout its life.

5458

[fol. 2238] Q. And under those conditions, if I give you the decline in rock pressure, could you give me the percent. of depletion?

A. I could give you the percent. of depletion, but not the amount of depletion.

Q. Now, I didn't ask you that.

Mr. Butler: Read my question.

(Question read.)

A. Yes.

Q. Now, you can get the per cent. of depletion and yet not have converted it into volume or into cubic feet of gas?

A. It would be a question of what you can do?